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Sharia compliant investment funds in Saudi Arabia
a critical perspective

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Sharia Compliant Investment Funds in Saudi Arabia:

A Critical Perspective

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Dedication

I wish to dedicate this thesis to

my parents, Dr. Majdi and Mrs. Inayat, to whom I am forever grateful.

I wish also to dedicate this thesis to

Ola, my beautiful wife, and our two beautiful birds: Bara'a and Jomana.

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Acronyms

AAC	Arabian Automobile Company
AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
ABI	Association of British Insurers
ABP	The Dutch Pension Fund for Public Employees
AGS	Arabian Gulf States
APR	Authorised Persons Regulations
ARAMCO	Arabian American Oil Company
CalPERS	California Public Employees' Retirement System
CEIG	Christian Ethical Investment Group
CERES	Coalition for Environmentally Responsible Economies
CMA	Capital Market Authority
CSR	Corporate Social Responsibility
CTU	Central Trading Unit
DJIM	Dow Jones Islamic Market Index
EIRIS	Ethical Investment Research Service
ESG	Environmental, Social, and Corporate Governance
ESIS	Electronic Securities Information System
ETHIBEL	Corporate Social Responsibility Research
FTSE	Global Islamic Index Series
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperative Council
GDP	Gross Domestic Profile
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund

KSA	Kingdom of Sauudi Arabia
MCI	The Minister of Commerce and Industry
NAPF	National Association of Pension Funds
NGO	Non-Government Organisations
OECD	Organisation for Economic Co-operation and Development
PRIC	Pension and Investment Research Consultants
SAMA	Saudi Arabian Monetary Agency
SCIF	Sharia Compliant Investment Fund
SDI	Socially Directed Investment
SRI	Socially Responsible Investment
SSB	Sharia Supervisory Board
TASI	Tadawul All Share Index
UK	United Kingdom
UN	United Nations
UNPRI	United Nations Principles for Responsible Investmeent
US	United States
WTO	World Trade Organisation

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Last but not least, I would also to express my special thanks, love and gratitude to my lovely wife, Ola, my beloved children, Bara'a and Jomana, my parents, Dr. Majdi & Mrs.

Inayat, and my sisters and brothers, for their patience, understanding, support and endless love. Without their support, this work could not have been accomplished.

Declaration

I hereby declare that I am the author of this thesis; that the work of which this thesis is a record has been done by myself; and that it has not previously been accepted for a higher degree.

Signed:………………………. **Date**:……………….

Mohammad Hariri

Certificate

We certify that Mohammad Hariri has worked the equivalent of nine terms on this research, and that the conditions of the relevant ordinance and regulations have been fulfilled.

Signed:………………………. **Date**:……………….

Professor Christine V. Helliar

Signed:………………………. **Date**:……………….

Professor Robin Roslender

Abstract

The main objective of this thesis is to understand the extent to which Sharia compliant investment funds focus on social justice in Saudi Arabia. Islamic investment funds are defined as “a joint pool wherein the investors contribute their surplus money for the purpose of its investment to earn permitted profits in strict conformity with the precepts of Islamic Shariah” (Siddiqi and Hrubi, 2008, p.16). Islamic law teaches that social justice should exist between people in the community. This thesis examines social justice using a theoretical framework based on critical theory, which is an umbrella term for different social theories concerned with social and human dimensions. Postcolonial theory provides a lens for the interpretation of the research questions which investigate the influence of capitalism and globalisation on social aspects of life, and in this thesis on Saudi Arabian Sharia compliant investment funds. First interviews are conducted with Sharia compliant investment fund stakeholders in Saudi Arabia to (i) understand current practice in these funds in Saudi Arabia; (ii) evaluate perceptions of social justice in the light of globalisation, capitalism and Islam in the Saudi context; and, finally, (iii) evaluate the current practices of social justice in Sharia compliant funds in Saudi Arabia. The second method used is a content analysis of Sharia compliant investment equity funds’ Terms and Conditions. The main concern of the analysis is the social justice perspective of SCIFs to critically examine: (i) Western and global influences on SCIFs and; (ii) whether SCIFs T&Cs disclosures and screening criteria contain and reflect Islamic concepts of social justice. The findings from the two empirical pieces of work suggest that fund managers, the Sharia Supervisory Board members, investors, regulatory bodies and investee companies, which are the main stakeholders, have been affected by capitalism and globalisation that has caused the Sharia aspect of social justice in Islamic investment funds. Further, there are other impediments to social justice such as the absence of positive screening, Hisba and Shura from Sharia Compliant Investment Funds in Saudi Arabia. The main finding of this thesis is that

Western ideas have permeated into the developing world, as evidenced by Saudi Arabia such that SCIFs have adopted and mimic the capitalist ideology despite Islamic teachings. Thus Islamic investment funds need to rethink their practices and embed Islamic teachings into all their activities.

Chapter 1:

Introduction

1.1 Preamble

Islamic finance is not something new as it can be traced back to the 7th century (Rammal and Zurbruegg, 2007; Sadiq and Black, 2012), although the commercial use of Islamic finance only started recently, as Pepinsky (2012) notes. In general, Islamic finance refers to the use of Islamic principles of Sharia (Islamic law) in the banking and finance sphere (Sadiq and Black, 2012).

Islamic finance is a fast growing industry globally (Merdad et al., 2010; Hearn et al., 2012; Sadiq and Black, 2012) and Sharia compliant assets held globally amounted to over US $1 trillion in 2010 (Merdad et al., 2010; Sadiq and Black, 2012), growing by 15% annually (Hassan, 2001; Elfakhani et al., 2007). Warde (2000, p.5) defines Islamic finance as all financial practices being "based, in their objectives and operations, on Koranic principles." Even though this is a broad definition for Islamic or Sharia compliant investment it gives the general sense that Islamic or Sharia compliant investment goes beyond interest-free banking and investing which is often the popular conception of Islamic finance (Mirza and Baydoun, 1999).

One of the most important goals of Islamic teachings is to increase social justice in human society (Chapra, 2009). The financial and investing system is one possible method to do so, as the Islamic religion contains several social justice concepts that work for social betterment and can be used in investment (Chapra, 2009). Seidu (2009) explains that "Islamic banking and finance is a system aimed at promoting Islamic economic order based on social justice" (p.38).

Islamic or Sharia compliant banking and finance products are currently used widely, even by Western financial institutions all around the world such as Citibank, Barclays, Morgan

Stanley, Merrill Lynch and HSBC (Merdad et al., 2010; Hoepner et al., 2011). In the same vein, international stock exchanges have launched Islamic indices, such as the New York and London Stock Exchanges, which track the performance of companies that are in line with Islamic investing rules (Merdad et al., 2010; Siddiqui, 2007; Elfakhani et al., 2007). Sharia Compliant Investment Funds 'SCIFs' are important for Islamic finance as they allow small investors to achieve their goals of "seeking liquidity, portfolio diversification, and investment expertise" according to their moral, ethical and religious views (Merdad et al., 2010, p.158). SCIFs are still in their infancy for growth and development but have grown rapidly (Elfakhani et al., 2007). However, there are a dearth of academic studies on Islamic banking and finance in general and SCIFs in particular (Iqbal, 2001; Merdad et al., 2010) and that provides one motivation for this study. Also, the socially responsible investment (SRI) and ethical investment literature are used in this study to inform this thesis as there is a close similarity between them and SCIFs (Hussain, 2004; Miglietta and Forte, 2007; Merdad et al., 2010).

The Saudi Arabian economy and stock market is the largest in the Middle East (Merdad et al., 2010; Jaimovich and Panizza, 2009). It is the largest crude oil producer and has the largest oil reserves which, as a result has increased liquidity and provided stable economic growth (Merdad et al., 2010; Nashawi et al., 2010; Matsumoto et al., 2012). Saudi Arabia follows Islamic law as its main source for legislation in all life aspects (Haniffa et al, 2004; Wilson, 2009; Merdad et al., 2010; Cheng et al., 2010) including the prohibition of dealing with pork, alcohol and gambling (Ramady, 2010; Merdad et al., 2010), but some Islamic teachings are not enforced by the government and not recognised widely by citizens such as fixed-interest in banking and finance transactions (Merdad et al., 2010).

There has been a rapid growth of Islamic finance in Arabic gulf countries and the total assets for Sharia compliant industry was US$ 262 billion in 2009 (Wilson, 2009). In Saudi Arabia (KSA), the total assets for Sharia compliant assets reached US$92 billion in 2007 which is higher than all gulf countries and Malaysia (Wilson, 2009). Even though Saudi Arabian Islamic banking and finance is the biggest in the region, there is no legislation for Sharia compliant banking and finance (Wilson, 2009). Regarding SCIFs, there has been a constant growth of SCIFs in KSA but, because there is no government legislation that governs the industry, it is not clear if these funds follow Islamic instructions correctly as a result of a lack of studies about SCIFs. Indeed, Mirza and Baydoun (1999) mention that most studies in Islamic banking and finance focus on technical aspects such as calculating Zakat[1] or avoiding Riba (Usury), and financial performance in the case of SCIFs, so previous studies usually miss discussing the social and ethical dimensions of Islamic financial institutions.

SCIFs, "like any investment pooling system, collect individual savings for investment and the sharing of benefits" (Lewis, 2010, p.43). SCIFs are an example of ethical investment and many Muslims invest in the so-called Islamic or Sharia equity investment funds (Hayat and Kraeussl, 2011). Adherence to Sharia principles is the financial institution's Sharia supervisory board's (SSBs')[2] responsibility (Walkshäusl and Lobe, 2012) because their main responsibility is that each one "approves proposed [investee] companies and monitors the compliance of their business activities with the guidelines of the Sharia" (Walkshäusl and Lobe, 2012, p.1). SCIFs refer to two types of guidelines for choosing securities: (i) sector guidelines; and (ii) financial guidelines. For this reason, each Islamic financial

[1] Zakat "is a religious levy or almsgiving as required in the Holy Qur'an and is one of the five pillars of Islam" (Hassan and Lewis, 2007, p. Xviii; Visser, 2009).
[2] Sharia supervisory board role will be discussed later in chapter 3 in section 3.4.1.

institution usually has an SSB to govern it and ensure that all of its practices are in accordance with these guidelines (Brown and Skully, 2009).

Also, there is an absence of studies about the social role of, and social investment in, Islamic banking and investment and the lack of a critical theoretical framework in the finance literature. All of this has motivated the researcher to study SCIFs in KSA and why they do not influence social justice in society with a focus on globalisation as a possible influence on the lack of social justice in SCIFs. Haniffa and Hudaib (2011) mention that Islamic financial institutions should cooperate and assist society to have social justice. However, there is no specific definition of social justice[3] in Islam although there are a lot of rules, concepts and principles that are related to social justice in Islamic teachings (Kamla and Rammal, 2013). From an economic perspective, Hasan (1971) said that social justice in Islam is “related to distribution of economic duties and rewards” (p.209). Nevertheless, this is a narrow definition of social justice that does not cover most social justice concepts.

As this study focuses specifically on the role of social justice[4] by SCIFs, the definition of social justice has been inspired by socially responsible investment as there is a lot of synergy between SCIFs and SRI (see Hussain, 2004; Miglietta and Forte, 2007; Siddiqui, 2007; Merdad et al., 2010, Lewis, 2010). Also, SRI screening criteria is one way to have social justice by SCIFs from this study perspective. An appropriate definition of social justice by SCIFs is one identified by Kreander (2001), with some amendment, as suitable for this study. For the purpose of this study, social justice by SCIFs “does not rely solely on financial [screening] criteria in security selection, but uses ethical, [environmental,

[3] Social justice is a broad word in Islam. This issue was raised in a PhD seminar and there were a lot of interesting arguments between the researcher and other PhD students, most of them are Muslims, and some academic staff. The discussion concluded that social justice in Islam contains a lot of concepts that can be used to achieve social justice by SCIFs. As there are a lot of social justice concepts, some of these concepts are studied to conduct this study and they are identified in chapter 3, in section 3.2.2.
[4] Social justice will be discussed more in chapter 3, in section 3.2.

social, corporate governance or any] non-financial [screening] criteria [that is in line with Islamic law and in achieving Islamic social justice,] when choosing securities [and thus to the betterment of society]" (Kreander, 2001, p.9).

1.2 Research Aims and Questions

The field of Islamic finance is still new and a lot of knowledge needs to be developed and improved. The aim of this thesis is to study SCIFs from a critical perspective to assess their influence on society and the extent to which SCIFs meet the criteria of social justice in KSA. In the same vein, as the most relevant document to SCIFs is their prospectuses, this study aims to examine if SCIF's prospectuses facilitate their social justice role. In order to accomplish these aims, the research addresses the following questions:

1. *Should SCIFs in Saudi Arabia have a social justice role?*
2. *What are the perceptions of SCIFs' stakeholders in relation to social justice and is social justice reflected in SCIFs prospectuses (T&Cs)?*
3. *What are the perceptions of SCIFs' stakeholders in relation to globalisation and has globalisation influenced the focus of SCIFs prospectuses (T&Cs)?*
4. *Which factors (if any) hinder SCIFs from having a social justice role in Saudi Arabia?*

1.3 Critical Theoretical Framework

In the last twenty years, critical theory has become more influential in informing researchers in the finance and accounting field (Roslender, 2006). The theoretical framework in this thesis will build upon postcolonial theory which is a strand of critical theory. In general, the theoretical framework explains that colonialism and imperialism are key factors hindering social justice in developing countries. However, this influence continues as a result of the emergence of capitalism and globalisation in the world as a new form of colonialism[5] (Said, 1993; Gandhi 1998).

The postcolonial literature emerged to explain the period that started from the beginning of imperial power and control over the colonies (Ashcroft et al., 1995). The term 'postcolonial' not only refers to the period after military imperialism or after colonialism had left the colonised country but it also cares about the post colonialism period as a way to diagnose the problems that developing countries currently suffer from as a result of neo-colonialism (Gandhi, 1998) and as a result of globalisation. Postcolonial theory and globalisation are used to study SCIFs to expose their impact on SCIFs in KSA and to help understand how globalisation has impacted on SCIF's practises and whether it has impeded social justice.

1.4 Scope of the Research

The main concern of the research, in the light of postcolonial theory, is to examine the influence of capitalism and globalisation on the social justice aspects of Saudi Arabian SCIFs. This is facilitated first by semi-structured interviews of groups of SCIF stakeholder in KSA including: fund managers; Sharia supervisory board members; investors; and regulatory bodies. This is followed by a content analysis of equity SCIFs prospectuses' Terms and Conditions (T&Cs) of in KSA.

To date, to the best of the researcher's knowledge, no studies have been conducted to assess social justice and its influence on society in banking and finance and in particular for conventional or SCIFs. Thus, this research is unique in its scope because there is already a lack of studies about SCIFs. However, there are some studies about the social role of

[5] The mention of word neo-colonialism throughout this thesis is indicating to globalisation.

Islamic banking and finance that pave the way for this study such as Kamla (2005), Maali (2006) and Haniffa and Hudaib (2007), in addition to studies about socially responsible investment such as Chegut et al. (2011) and Strasser (2011). This study focuses on equity SCIFs and covers screening criteria[6] based on Islamic teachings to see if there is any influence on social justice on society. This study will contribute to the literature of finance, Islamic finance and SCIFs as this piece of work will be studied from a critical perspective. Also, it will give an understanding and clarification of whether SCIFs are used by fund managers only for financial goals or for social justice goals as well. This thesis will facilitate an understanding if there is a lack of social justice or not that associated with the influence of SCIFs and how this can be enhanced by adapting screening criteria used by funds and to adopt positive screening. Positive screening considers screening criteria embedded in Islamic teachings and this study will open up the arguments of the wrong practices and roles of SCIFs in KSA that impede social justice.

This study is explanatory in nature and located within the radical humanist paradigm as identified by Burrell and Morgan (1979). The aim is to find out the reasons, if any, behind focusing on some Islamic teachings and ignoring others in SCIFs, and to examine the social justice perspective of SCIFs main stakeholders, who are fund managers, Sharia supervisory board members, investors and regulatory bodies, as they have the most influence on SCIFs. This approach was thought to be suitable because SCIFs might need a radical change to have a real societal influence. Other research methodologies can be used as well but they are not investigated here.

[6] SCIFs screening criteria will be discussed later in chapter 3 in section 3.6.

1.5 Structure of the Thesis

This study is structured in eight chapters. Following the current introductory chapter, chapter 2 presents a general review about Saudi Arabia because it is the main country this study investigates. In the beginning, this chapter highlights general information about the political and economic environment in Saudi Arabia supported with a brief history about Saudi Arabia. Following this, the chapter discusses the development of the Saudi stock market and investment funds in Saudi Arabia. The investment funds regulations and regulatory bodies are discussed, as well as the main fund managers, and the number of SCIFs in KSA.

Chapter 3 presents a review of the literature that is related to the issues to be examined in this thesis. The chapter discusses Islamic law as it is the main source of legislation in KSA and the Islamic law concepts about social justice. General principles for economics and business that Islamic law includes, and that SCIFs should follow, is also incorporated. Because SCIFs are part of Islamic finance, Islamic banking and finance is also discussed briefly, specifically Islamic finance tools as they are the main tools for investing in SCIFs. Islamic funds governance is then discussed, related to the Sharia supervisory board and their role currently in SCIFs. The chapter also highlights the studies that examine social reporting and the influence of Islamic banking as it can be related to social justice. After that, the chapter goes forward and discusses ethical investment in Islamic financial institutions and highlights the role and characteristics of SCIFs and examines the screening criteria of SCIFs. The chapter then proceeds to highlight socially responsible investment funds in Western countries and investigate its historical background, goals, and origin to support investment and positive screening criteria in SRI funds. Thus, this chapter discusses the literature that will be helpful to achieve the goal of this thesis.

The purpose of chapter 4 is to discuss the theoretical framework that is used to conduct this thesis. This theoretical framework is based on postcolonial theory as a strand of critical theory. In the beginning, the chapter highlights critical and postcolonial theory. Postcolonial theory discusses the influence of previous colonisers on their colonies, and how this influence continues today through economic globalisation. Globalisation influence is considered one of the causes of a lack of social justice in developing countries. Then the chapter proceeds to globalisation as this study focuses on the influence of globalisation, in light of postcolonial theory, on SCIFs social justice. In the light of postcolonial theory, globalisation is interpreted as a continuation of colonialism. Also, the chapter discusses the social justice framework in Islam. Then the chapter draws attention to several studies that have adopted critical and postcolonial theory for Islamic finance and accounting. The chapter then highlights some literature that uses the critical, postcolonial and globalisation theoretical framework in finance and accounting.

Chapter 5 considers the research methodology, and discusses the methods utilised to conduct the analysis of this study. Regarding methodology, Burrell and Morgan (1979) direct the researcher's views about the nature of reality and the contribution of knowledge. Various methodological frameworks are discussed to contribute to the ontological, epistemological and methodological assumptions. As a result, the methods to conduct this research are selected. The main philosophical assumptions that can guide academic research are clarified. The researcher's ontological and epistemological assumptions that are adopted for this study direct the researcher to the choice of a qualitative, radical humanist methodological approach. The chapter then explains the relationship between this approach and the methods used to answer the research questions.

Chapter 6 is the first of two empirical chapters to fulfill the goals of this thesis. It covers semi-structured face-to-face interviews that: (i) evaluate the current practices of SCIFs to understand the interviewees' perceptions of social justice; (ii) try to understand the context of KSA and globalisation and what impedes SCIFs from improving social justice. The role of fund managers, Sharia supervisory board members and investor's involvement in current practice and their social justice impact are investigated. The chapter discusses interviewees' experiences, opinions and concerns about social justice in KSA and whether globalisation plays a positive or negative impact on social justice. It also assesses if globalisation can influence social justice and why Islamic social justice concepts are reflected in SCIFs.

Chapter 7 takes a different approach by applying a content analysis technique to T&Cs contained within the prospectuses of SCIFs in KSA. The main aim of this exercise is to examine whether SCIFs prospectuses incorporate social justice concepts in their content and examine the influence of globalisation. This critical analysis of funds' prospectuses tries to assess to what extent SCIFs care about social justice and whether they are differ from conventional ones. It highlights the influence of globalisation on the objectives, screening, regulations, and Sharia supervisory boards of SCIFs.

Chapter 8 provides a summary and discussion of the thesis and the main findings from the two empirical chapters. The chapter presents some possible limitations of this current study, possible opportunities for further development and research, and final thoughts.

Chapter 2

The Saudi Arabia Context

2.1 Introduction

To understand the development of finance and accounting in any country and the influential factors, it is important to study the environmental characteristics such as the economic, political and legal situation of the country under investigation (Jaggi and Low, 2000) and as Arpan and Redebaugh (1985) state:

> "Economic development affects many sociocultural attitudes and brings about change in legal, political and educational objectives and sophistication, each of which in turn can affect accounting practice." (p. 23)

This chapter gives an overview of the background and development of investment funds in Saudi Arabia (KSA) which is the focus of this thesis. To achieve these goals the chapter is organised as follows: the next section presents a general and historical background about Saudi Arabia. Sections 2.3 and 2.4 discuss the political background and Saudi Arabia economy respectively. Section 2.5 provides a review about the development of the Saudi stock market. Section 2.6 discusses the history of investment and investment funds regulations in Saudi Arabia. The last section provides a brief summary of the chapter.

2.2 General Background

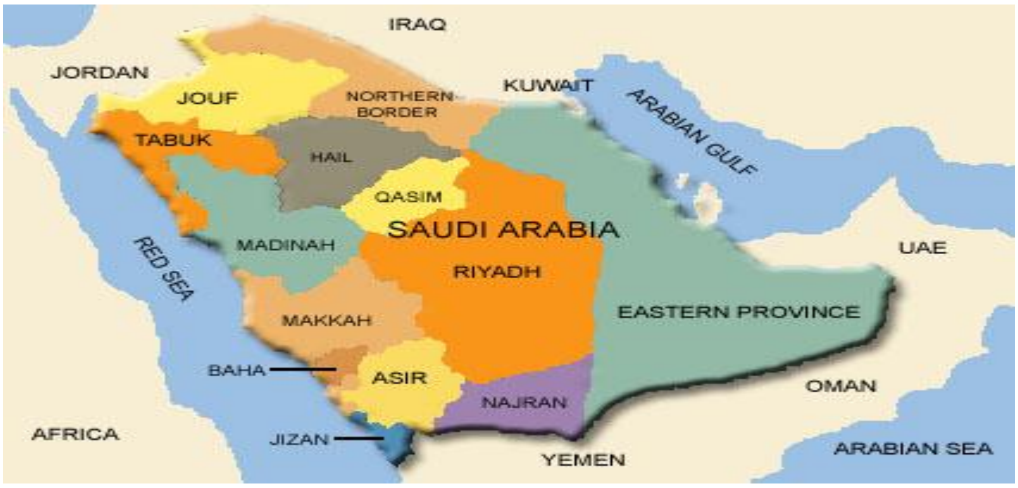
The official name of Saudi Arabia is Al-Mamlaka al-Arabiya as-Saudiya (The Kingdom of Saudi Arabia KSA). It contains an area of 2,250,000 square kilometres (868,730 square miles) with physical features of deserts, plateaux and mountains. It comprises about four-fifths of the Arabian Peninsula. The population has increased from 7 million in 1974 to 23.6 million in 2006 (CIA, 2012) and according to the KSA Central Department of Statistical Information, KSA population reached 28.4 million in 2011 (Central Department of Statistical Information, 2012). Saudi citizens represent 72.9% of the population (CIA, 2012) with 55.3% male and 44.6% female. Currently, it is estimated that almost half the Saudi population is under the age of 20 (Wilson, 2004). The main language is Arabic. The main currency is Saudi Riyal (SR) (1$ = 3.75 SR)[7] and the flag is the green banner of Islam, bearing the inscription: "There is no God but God; and Muhammad is his Messenger". The sword was added in 1906, symbolising the military's success to unify the kingdom (See Figure 2.1). The current head of state and Prime Minister is King Abdullah bin Abdul Aziz.

The Saudi Arabian capital is Riyadh (population in 2012: 4.7 million) (CIA, 2012). The capital lies in central region in the heartland of the Arabian Peninsula. The name Riyadh derives from the Arabic word "Rawdah" meaning a place of gardens and trees. There are 13 administrative regions in Saudi Arabia: Baha, Jouf, Asir, Eastern province[8], Hail, Madinah, Makkah[9], Najran, Jizan[10], Northern Border, Qasim, Riyadh[11], and Tabouk (figure 2.2). Each administrative province is named according to the main city in the area apart from the Eastern province and the Northern Border[12]. Saudi Arabia is bordered by Jordan, Iraq and Kuwait in the north, in the South by Yemen, in the East by the Arabian Gulf, Qatar, the United Arab Emirates, Bahrain and Oman, and in the West by the Red Sea (see Figure 2.2) (Al-Amari, 1989; CIA, 2012).

[7] The Saudi Riyal is pegged to the US dollar, so the exchange rate is fixed reducing risk.
[8] The Eastern province is the richest of all the regions in petroleum. It is the largest province of Saudi Arabia and its main cities are Dammam and Khobar.
[9] Madinah and Makkah provinces are in the Western region which is lies along the Red Sea coast. They are important because the two Holy Mosques are there.
[10] Najran and Jizan provinces are in the Southern region of KSA, in the southern Red Sea-Yemen border area.
[11] It is the Saudi Arabia capital and the centre of KSA business where most financial institutions headquarters located.
[12] The Northern Border is the least populated province of Saudi Arabia and the main city of province is Ar'ar.

Figure 2.1
Saudi Arabia Flag

Figure 2.2
Saudi Arabia Administrative Regions



Islam is the religion of Saudi Arabia and all Saudi citizens are Muslims. There are two main types of Muslims in Saudi Arabia: Sunni and Shia. The majority of Saudi Arabia citizens are Sunni, and Shia represent between 5 to 10% of the Saudi Arabian population (Al-Amari, 1989). The Sunni include four religious schools: Hanafite; Malikite; Shafeite; and Hanbalite[13] (Asherman, 1982; Ménoret, 2005). The Saudi culture is derived from Islamic principles and instructions which are based on the above mentioned religious schools. In general, there are more similarities than differences (Ménoret, 2005) and all treat social justice exactly the same.

[13] For the purpose of this study the difference in type of Muslims is not important.

There are two holy cities in Saudi Arabia, those of Makkah and Madinah. The holy city of Makkah located in the Western region in KSA, is the most important city in the Islamic world for several reasons. First, the Prophet Mohammad was born there and second it is the first place where the Quran started to be revealed to the Prophet Mohammad. Third, Muslims around the world turn to Makkah five times a day to pray because it contains the holy mosque which contains Kaaba[14]. Finally, all Muslims must visit Makkah once in their life, unless prevented by personal circumstances, to perform Hajj, or the pilgrimage. Hence, Makkah, at the time of Hajj, hosts some two million pilgrims from around the Islamic world every year (BBC, 2013).

The holy city of Madinah, which is also located in the western region, is the second holist city in Islam after Makkah and contains the second Holy mosque[15] for all Muslims and is where the Prophet Mohammad is buried (Bamousa et al., 2012). The following section discusses the history of KSA before it was fully established in 1932.

2.2.1 History of Saudi Arabia

Saudi Arabia's history starts in 1744 when Muhammad bin Saud (forebear of the present rulers) agreed with Imam Muhammad bin Abdul Wahhab (the religious leader) to bring the Arabs of the peninsula to the true Islam. The capital of Saudi Arabia in this phase was Diriyah. Muhammad bin Saud and Muhammad bin Abdul Wahhab started to fight together against other tribes[16] until they conquered the whole area of Nejd, the central Arab peninsula, and Hasa, the eastern region by 1800. By 1803 Muhammad bin Saud and Muhammad bin Abdul Wahhab conquered the two holy cities of Makkah and Madinah and

[14] Kaaba is Muslim Qibla, which mean the direction faced during prayers.
[15] The second Holy mosque is Mosque of Prophet Mohammed.
[16] The tribes that used to control Nejd were allies to Ottoman Empire.

by 1810 they had conquered almost all the Arab peninsula. The Ottoman Empire[17] then sent an army and ended the rule of the Muhammad bin Saud family in 1818. The period between 1744 and 1818 is considered the first phase in establishing the Saudi Arabian kingdom (Bowen, 2008).

After six years, in 1824, a new leader from the Saud family, Turki ibn Saud, began to fight again against the Ottoman Empire alliance to regain his family rule. He succeeded in re-conquering Nejd and Hasa by 1824 and assigned Riyadh as the capital. In 1834, Turki was assassinated and Turki's eldest son, Faisal, became the ruler. Again, in 1838, the Ottoman Sultan sent forces from Egypt who defeated Faisal bin Turki, retaking Nejd. Faisal bin Turki was sent to prison in Egypt, but he escaped from Cairo after Egyptian independence from the Ottoman Empire, and returned home to resume his reign which lasted untill 1865. By then, the Ibn Saud family once more controlled most of Nejd and Hasa. In 1891, the second phase of the Saud family was ended after the capture of Riyadh by Muhammad bin Rashid, leader of the Shammar tribe[18]. Muhammad bin Rashid forced Faisal bin Turki's son Abdul Rahman bin Faisal, who had become the ruler after his father's death in 1865 to leave Riyadh, and he left to Kuwait. He lived in Kuwait until his son Abdul Aziz, the first king of the current Saudi Arabia, decided to retake his family inheritance. King Abdul Aziz succeeded in recapturing Riyadh in 1902 and started to consolidate most of the Arabian Peninsula under his rule. In September 1932, the Kingdom of Saudi Arabia was founded and officially acquired its present name (Bowen, 2008).

King Abdul Aziz ruled Saudi Arabia from 1902 to 1953. After his death his oldest son, Saud, ruled the Kingdom for 10 years. The third king of Saudi Arabia, Faisal, became king

[17] The Ottoman Empire it is one of the largest and longest lasting empires in history (1301-1922). At its peak, it included most of Arabic and Islamic countries under its control, in addition to some European countries (BBC, 2013).

[18] There are many tribes in KSA but the largest in terms of numbers are Anaza, Harb, Utaybah, Al Murrah, Shammar, Mutayr and Qahtan (El Mallakh and El Mallakh, 1982).

in 1964. Faisal was named regent first and, a few months later in the same year became king until his death in 1975. Consequently, his brother, Khalid, become the fourth king of Saudi Arabia. King Fahad became the fifth king of Saudi Arabia after King Khalid's death in 1982 (Alhufaiyan, 1998). King Fahad ruled Saudi Arabia until his death on 1st August, 2005 when King Abdullah ibn Abdul Aziz became the sixth king of Saudi Arabia until the present time.

2.3 The Political Government and Legal System Background

Government

As mentioned above, Islam is the religion of Saudi Arabia and the constitution is governed according to Islamic law. The constitution was promulgated in 1992 and under this the king of Saudi Arabia, Abdullah bin Abdul Aziz, is also the prime minister. He assigns new ministers every four years but all the important ministries are run by other members of his royal family (CIA, 2012).

The government consultative council is called the Ash-Shura committee, which was established in 1992 by king Fahad. The Ash-Shura committee has 150 members with 13 sub-committees. All members are appointed by the king and it serves as an advisory body. The sub-committees include: Islamic and judicial affairs; human rights; social, family, and youth affairs; economic affairs and energy; security affairs; educational and scientific research affairs; cultural and informational affairs; foreign affairs; health and environmental affairs; financial affairs; transportation, communications and information technology; water and public facilities and services; and administration, human resources and petitions (CIA, 2012; Majlis Asu-Shura, 2012).

Legal system

The nature of the legal system is important to be understood before conducting a study of a country as the legal system can influence the development of business and financial practices (Jaggi and Low, 2000). The Saudi Arabian constitution is governed according to Islamic law and the legal system is also based on Sharia (Islamic) law. The holy Quran and Sunnah are the main sources of Sharia law (Asherman, 1982; Al-Amari, 1989). Article one, chapter one of the Basic Law of Saudi Arabia states that: "…God's Book and the Sunnah of His Prophet are the country's constitution". However, there are specific laws that are not dependent upon Islamic law such as tax law. In the case of a conflict between Sharia law and a specific law, Sharia takes precedence and the specific law is not used (Al-Amari, 1989). The king also has the authority to make a final decision regarding the laws to be applied or adopted and he considers three authorities: the executive (ministers), the judiciary[19], and the regulatory authority (Ash-Shura committee and Bureau of Experts at the Council of Ministers[20]) (Saudi Arabian Basic Law of Government, 1992, Chapter 6, article 44).

2.4 The Economy of Saudi Arabia

The most important source of income in Saudi Arabia is oil. Oil was first discovered in 1923. Before discovering oil the kingdom depended upon the income from pilgrims, agriculture, and other simple revenue resources (Al-Marzoog, 2004). However, it is not possible to compare income before and after discovering oil because income was not recorded by the Saudi Arabian Monetary Agency (SAMA). Saudi Arabia contains the world's largest reserves of oil (Asherman, 1982), with 25% of the world's total oil reserves,

[19] They are appointed by the King.

[20] Their main jobs are: review and study case-files referred by the Prime Minister and government members, Prepare draft laws and their required studies, Review and propose amendments to current laws, Study agreements and case-files establishing general rules, Draft appropriate forms for high orders, royal decrees and Council of Ministers resolutions and Join government agencies in reviewing issues brought before the Supreme Authority, the Council of Ministers and other supreme councils (Boe.gov.sa, 2013).

and 11% of the world's production (Saudi Arabia Ministry of Petroleum and Minerals, 2012).

The economy of Saudi Arabia depends heavily on oil income, but the government is currently trying to reduce this by encouraging other sectors to diversify its Gross Domestic Profile (GDP) and create opportunities for employment for the population (Saudi Arabia, Ministry of Finance). Table 2.1 shows GDP by Economic Activity for 2009-2011.

Table 2.1
Gross Domestic Product by Economic Activity
(Billion of Saudi Riyals)

	2010	2011	2012
Agriculture , Forestry & Fishing	47	48	50
Crude Petroleum & Natural Gas	813	1,207	1,277
Other Mining	8	9	9
Petroleum Refining	64	64	70
Other Manufacture	154	188	209
Electricity , Gas and Water	26	28	31
Construction	91	107	125
Wholesale & Retail Trade, Restaurants & hotels	175	198	219
Transport , Storage & Communication	101	115	129
Finance , Insurance , Real Estate' & Business Services	183	195	217
Community , Social & Personal Services	38	42	47
Imputed Bank Services Charge	20	20	21
Producers of Government Services	241	272	303
Total	1,961	2,493	2,707
Import Duties	15	17	20
Gross Domestic Product	1,976	2,510	2,727

Source: Saudi Central Department of Statistics and Information, 2013.
Note: the Table presents three years of GDP for KSA.

However, even with the tremendous income from oil the Saudi economy has faced several difficulties with budget deficits since 1990 leading the government to take action including establishing the Supreme Economic Council, encouraging foreign investors, and privatising public enterprises (Alshowaiman, 2008). The economic situation started to improve after the oil price rose and the government began to solve its problems through investing in projects that would improve citizens' lives (CIA, 2012). For example, the government invested in education by giving young citizens scholarships to go to developed countries, established six economic cities in different regions to encourage foreign investment and created jobs for the young population, and the government plans to spend $373 billion between 2010 and 2014 on social development and infrastructure (CIA, 2012). The next section expands the economic sector and covers the development of the stock market and investment funds.

2.5 Development of Saudi Stock Market

The Saudi stock market started, unofficially, in 1934 with the establishment of the Arabian Automobile Company (AAC). It is considered to be the first joint stock company in the country with a capital of SR12[21] million divided into 26,300 shares in 1934 (Tadawul, 2012). The number of joint stock companies increased in the Saudi stock market to a total of four by 1954 after the establishment of three electricity companies. In 1964, the number of companies had increased to 17. The issued capital for these companies was 29.9 million shares and a value of SR 2,955 million (Filmban, 1986, Al-Bogami, 1996). In 1957 the first joint-stock company in the financial sector, Riyadh Bank, was listed (Al-Bogami, 1996). The government started an official stock market in early 1980s for three reasons. First, to facilitate economic growth in the country, and the government also enacted company law

[21] Saudi riyal had instead been pegged to dollar ($1= SR 3.75).

legislation under Royal Decree No. M/6, 1965 (Filmban, 1986) to organise a primary market, and supervise all the companies that wished to go public[22]. Second, high oil prices in the 1970s provided KSA with huge revenues, which would result in an investment culture in the future. Third, the KSA started the first of its five year plans in 1970, with an objective to support non- oil sectors to reduce its dependence on oil revenues, to diversify government sources of income (Presley, 1984). By 1975, the number of listed companies was 54 with a total capital of SR 6,509 million, divided into 44.8 million shares (Filmban, 1986). In 1976, the government implemented its Saudiization policy[23] for foreign banks that wanted to operate in Saudi Arabia. As a result, eight joint Saudi/foreign banks were formed as joint stock companies[24]. These banks, that still operate today, are: (i) Al-Jazirah Bank (1976); (ii) the Saudi Investment Bank (1977); (iii) Saudi Holland Bank (1977); (iv) Saudi French Bank (1978); (v) Saudi British Bank (SABB) (1978), (vi) Saudi Cairo Bank[25] (1979), (vii) Arab National Bank (1979) and (viii) The Saudi American Bank (SAMBA) (1980) (Ba-Owaidan, 1994). However, trading in the Saudi stock market was by an informal brokerage system with no licenses required. In 1982 the crash of Souk Al-Manak in the Kuwaiti stock market was blamed on having an unofficial stock exchange and alerted all the Arabian Gulf stock markets to start regulating their stock exchanges to avoid such problems in the future (Al-Mudhaf, 1983).

Because of this issue in Kuwait the Saudi government formed a Ministerial Committee consisting of representatives of the Ministry of Finance and National Economy, the

[22] The Companies Act was issued under Royal Decree No. M/6, 1965 and amended under Royal Decree Nos. M/5 in 1967; M/23 in 1982; M/46 in 1985; and M/22 in 1992.

[23] “The Saudization policy aims at reserving certain jobs for local citizens only as a way of reducing the country’s dependence on an expatriate workforce and reducing the rate of unemployment in the Kingdom” (Sadi and Buraey, 2009, p. 70).

[24] At least 60% Saudi equity participation.

[25] This is the only bank that is not in existence today.

Ministry of Commerce, and the Saudi Arabia Monetary Agency[26] (SAMA) to regulate the stock market and develop share trading in the country[27]. The Committee's recommendations were: (i) to start an organised stock market; and (ii) provide measures to avoid a market crash as the result of speculation. In mid 1984 the Committee enacted a regulation to establish the Saudi stock market called "The Executive Rules to Regulate Share Dealing in Company Shares Through Commercial Banks". However, the Saudi government decided to follow the German and Swiss market models, which left trading in the hands of the Saudi Banks (Banafe, 1993).

In 1990 SAMA[28] introduced its new electronic trading system to the Saudi market; the Electronic Securities Information System (ESIS)[29] and was the first electronic trading market in the region. In mid 1992, SAMA gave its permission to local banks to establish investment funds for investing in Saudi local markets[30]. These investment funds were to be regulated and supervised by SAMA[31].

2.5.1 Primary Market Rules

The 1965 Companies Act governed securities that would be offered publicly. It was administrated by the Ministry of Commerce and any company that wanted to go public or increase its capital had to comply with this Act's requirements. The Companies Act contains 233 articles, covers all types of companies (Awwad, 2000) and covers corporation law such as dissolutions and liquidations and contains the extent of the power of the Ministry of Commerce (Al-Jabber, 1996).

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[26] Saudi Arabian Monetary Agency (SAMA), the central bank of the Kingdom of Saudi Arabia, was established in 1952.

[27] The Ministerial Committee was created by the Royal Decree No. 1230/8 dated 11/07/1403, April 1983.

[28] SAMA will be discussed later in the chapter.

[29] The system was built and developed by SAMA in cooperation with the former American company Arthur Anderson in 1989.

[30] Although investment funds were already in existence in several banks.

[31] Rules and Procedures for the Establishment and Regulation of Saudi Mutual Funds, Minister of Finance Decision No. 2052 dated 24/7/1413, SAMA, Securities Control Department, Riyadh, 1992.

The articles that govern joint-stock companies are set out in articles 48 to 148 and deal with aspects such as disclosure requirements, general meetings, tender offers, mergers, accounting rules and all material information. It goes beyond the issuance of new securities and covers almost all the activities of joint-stock companies including the conduct of directors, officers, and shareholders (Banafe, 1993).

2.5.2 Secondary Market Rules

The secondary market is the market where stocks are traded after they have been issued in the primary market. The Saudi stock market started officially in 1984 after the first stock market law "the Executive Rules to Regulate Share Dealings" was enacted by SAMA. In 1990, SAMA introduced the directions to central trading unit (CTUs) that regulates trading in the stock exchange market. The main CTU regulation is to provide banks with instructions to use the new electronic system (Awwad, 2000). SAMA was also responsible for exchange market supervision from 1984 to 2003 (Samba report series, 2009), when the current regulator of the Saudi stock exchange (Tadawul) became the Capital Market Authority (CMA)[32].

The Tadawul was established in 2001 as part of the new changes and regulations in the capital market to enhance the investment environment. The government also issued its Capital Market Law in 2003 designed to develop and restructure the capital market and attract more investors by providing information that explains the structures, regulatory, supervisory and operational entities in KSA and clearly defines their duties and powers. In addition, the government established new committees including the capital market authority (CMA), capital market, depositary, securities disputes settlement committee, and appeals

[32] CMA will be discussed later in the chapter.

committee, to separate control and supervisory achieve from the operational role of the capital market (Tadawul, 2013).

2.5.3 The Minister of Commerce and Industry (MCI)

The Ministry of Commerce and Industry (MCI) is considered to be the main body in Saudi Arabia that is concerned with companies (Falgi, 2009). Prior to 1984, the MCI was the exclusive body that was responsible for the informal stock exchange market, and this power[33] gave the MCI responsibility for the regulation of all companies including joint-stock companies (Awwad, 2000). In light of the newly emerging market conditions, MCI was seen as one of the main factors restricting market growth. Accordingly, in 1984, SAMA was established as the authority responsible for trading activities (Awwad, 2000).

2.5.4 Saudi Arabian Monetary Agency (SAMA)

On October 4 1952, SAMA was established as the Kingdom's Central Bank (SAMA, 2013). It had several responsibilities[34] and was given the authority to regulate the stock market in 1984 as SAMA had already regulated the commercial banks who were the main players in the operation of the stock market (SAMA, 2013). Accordingly, from 1984, SAMA established several regulations and developed automated trading systems in the capital market (Awwad, 2000). On 1st July, 2004, the supervision of the Stock Market was shifted to the Capital Market Authority (CMA).

[33] This power gained according to the Companies Act 1965 (Awwad, 2000).

[34] These responsibilities include: the Kingdom's currency, macro-economic policy, regulating the banking affairs of the government (fiscal agency services), regulating the activities of the commercial banks and exchange dealers, and managing the country's official foreign exchange reserves.

2.5.5 Capital Market Authority (CMA)

In July 2003, the CMA was established under the "Capital Market Law"[35], but the supervision of the Stock Market was officially established in July 2004. It is a government authority, but is independent in terms of its financial and administrative structure and has direct links with the Prime Minister (CMA, 2013). It reports directly to the Prime Minister and its main purpose is developing the Saudi capital market by issuing rules, directives and instructions and implements the provisions of the Capital Market Law (CMA, 2013).

The different duties and responsibilities of the CMA are to: (i) develop the stock market and improve security traders' behaviour; (ii) protect investors from unfair practices or fraud; (iii) achieve efficiency and transparency in securities transactions; (iv) monitor the issuing and trading of securities; (v) monitor all parties under CMA regulations; and (vi) monitor the disclosures of parties involved in the capital market (CMA annual report, 2011).

To achieve these goals the CMA established four departments. First, is the enforcement department, which is responsible for monitoring companies from violations of the capital market law and enforce new rules to be applied in the capital market. The second department is corporate finance which is responsible for: (i) reviewing applications for the issuance, offering and listing of securities; (ii) ensuring that listed companies disclose all required information; and (iii) ensuring that investment funds are in line with capital market law. Third is the market supervision department which is responsible for: (i) reviewing listed companies interim and annual financial statements and monitor their publication in Tadawul (Saudi stock exchange) and checking compliance with accounting standards; and (ii) analysing on-line and off-line trading transactions to prevent manipulation. The fourth

[35] Was promulgated by Royal Decree No. (M/30).

department is the authorisation and inspection department which is responsible for: (i) checking applications for authorisation to do securities business; (ii) ensuring that a person complies with capital market law; and (iii) inspecting authorised persons to be sure they comply with regulations (CMA annual report, 2011). The CMA is responsible for issuing regulations to implement the provisions of the Capital Market Law and has issued: (i) Real Estate Investment Funds Regulations; (ii) Investment Funds Regulations[36] (CMA, 2013)[37].

2.5.6 Saudi Capital Market

The importance of the Saudi capital market is that it is the largest in the Arab world from a capitalisation point of view (SAMA 47th annual report, 2011). The Saudi capital market represents 36% in terms of the capital size of the total Arab capital market (Table 2.2), which is one of the reasons why investment funds are attracted to and target the Saudi capital market.

[36] Investment funds regulations will be discusses later in this chapter.

[37] In addition, the CMA has issued: (i) Anti-Money Laundering and Counter-Terrorist Financing Rules; (ii) Merger and Acquisition Regulations; (iii) Corporate Governance Regulations; (iv) Offers of Securities Regulations; (v) Listing Rules; (vi) Securities Business Regulations; (vii) Authorised Persons Regulations; (viii) Market Conduct Regulations and (ix) Glossary (CMA, 2012).

Table 2.2
Capital Market Size

Country	Percentage Share of Capital Market (%)
Saudi Arabia	39
Qatar	14
Kuwait	10
Abu Dhabi	8
Morocco	7
Dubai	6
Egypt	5
Jordan	3
Oman	3
Bahrain	2
Lebanon	1
Tunisia	1
Palestine	0.32
Sudan	0.31
Algeria	0.02
Total	100

Note: Percentage Share of Arab capital markets in the composition of the Arab monetary fund's index at the end of 2012 by market capitalisation.
Source: Saudi Arabian Monetary Agency – 48th annual report, 2012.

The Saudi stock exchange currently lists 156 companies divided into 15 sectors. These companies and sectors are shown in Appendix 2.1. During 2011 the value of stock traded in the Saudi stock exchange market was SR 33.3 billion. The most active share trading sector in 2012 was the petrochemical industry with 19% followed by bank and financial services by 10 %, then real estate development and insurance with 15% and 11% respectively. The sector with the biggest market capitalisation in 2012 was also the petrochemical industry (37%) then banks and financial services (24%), and telecommunication and information technology (9%) (See Table 2.3) (SAMA 48th annual report, 2012). This accords with KSA GDP (see Table 2.1), as petroleum and gas are the biggest in terms of GDP and the biggest in the capital market; similarly for financial services, as they are ranked second. The GDP results and market capitalisation are very similar, which indicates that the stock market activity and market capitals reflect GDP.

Table 2.3
Saudi Share Market Activity and Market Capitalisation

Sector	No. of Traded Shares		Market Capitalisation	
	Million Shares	Percentage	Billion Riyals	Ratio to Total
Petrochemical Industries	9,400	19%	467	37%
Insurance	7,143	15%	25	2%
Real Estate Development	5,281	11%	43	3%
Banks & Financial Services	4,701	10%	309	24%
Telecommunication & Information Technology	4,330	9%	115	9%
Agriculture & Food Industries	3,805	8%	53	4%
Multi-Investment	3,181	7%	38	3%
Building & Construction	2,599	5%	23	2%
Industrial Investment	2,180	5%	42	3%
Cement	1,633	3%	60	5%
Transport	1,438	3%	7	0.5%
Retail	1,165	2%	23	2%
Energy & Utility	946	2%	60	5%
Hotel & Tourism	377	0.8%	3	0.2%
Media and Publishing	365	0.8%	4	0.3%
Total	**33,255**	**100.0%**	**1,326**	**100.0%**

Note: the table shows the most sectors that have high trading volume and how much it own from market capitalisation.
Source: Saudi Arabian Monetary Agency – 48th annual report, 2012

The two biggest companies by market share are Al Rajhi bank and the petrochemicals producer, Sabic. Both account for around 11% of the market (SAMA 45th annual report, 2008). Al Rajhi bank is the biggest bank in the KSA and one of the largest Islamic banks in the world. The bank’s assets are US$ 59 billion (Al Rajhi, 2013) and importantly for this thesis its investment arm Al Rajhi capital offers 14 different Shaira compliant investment funds in the KSA investment market.

The Saudi stock exchange was very active from 2002 to 2005 and the market index increased 110% from 2,518.1 in 2002 to 4,437.6 by the end of 2003. The next year, 2004, market index increased by 85% to reach 8,206.2 and market capitalisation by 95% to reach SR 4,148.6 billion. The market index increased from 8,206.2 in 2004 to 16,712.6 by the end of 2005, and the index doubled by 104% and market capitalisation by 112% (See Table 2.4). As part of this measure growth, the number of investment funds increased rapidly between 2002-2005[38].

Table 2.4
Saudi Share Market Indicators

Year	No. of Shares Traded(Million)	Annual Change %	Value of Shares Traded (Billion SR)	Annual Change %	Market Capitalisation of Issued Shares (Billion SR)	Annual Change %	Share Price Index	Annual Change %
2001	3,459	25	84	28	274	8	2,430	8
2002	8,679	151	134	60	281	2	2,518	4
2003	27,829	221	596	346	590	110	4,438	76
2004	51,492	85	1,774	197	1,149	95	8,206	85
2005	61,407	19	4,139	133	2,438	112	16,713	104
2006	68,515	12	5,262	27	1,226	(50)	7,933	(52)
2007	57,829	(16)	2,558	(51)	1,946	59	11,039	39
2008	58,727	2	1,963	(23)	924	(52)	4,803	(56)
2009	56,685	(3)	1,264	(36)	1,195	29	6,122	27
2010	33,255	(41)	759	(40)	1,325	11	6,621	8
2011	48,545	46	1,099	45	1,271	17	7,835	19

Note: an analysis of the activity of the share market from 2001 to 2011.
Source: Saudi Arabian Monetary Agency – 48th annual report, 2012.

[38] Investment funds growth will be discussed in section 2.6.

However, the market crashed, after hitting its highest level on 25th February 2006, when the Tadawul All Share Index (TASI) reached 20,635. During its peak, the Saudi stock market was the world's tenth largest stock market by value, despite the number of listed companies being just 78 in 2006. In 2006, the Saudi stock market lost half of its value in less than three months and, by the end of 2008, the index was 4,803 (Samba report series, 2009). Table 2.4 shows that, by 2011, the index had risen to 7,835. One of reasons for the steep fall in the Saudi stock market in 2006 may be that most of the investors in the Saudi Arabian capital market are individual investors (see Table 2.5).[39] There is no dependence on institutional investors in Saudi Arabia. The number of subscribers in investment funds at the end of 2012 is 275,624 (See Table 2.6), while there were over four million individual investors at the end of 2012 (See Table 2.5). As a result, it might be that although some individual investors may be "influential'' and have more power to drive policies than others, including social justice in investment activities, in general there are no powerful investors that can influence SCIFs practices.

Table 2.5
Number of Investors Based on Client Type/Nature

Type	Number
Individual	4,217,872
Company	2,494
Government[40]	205
Investment Funds	444
Swap Agreement	340
Total	**4,221,355**

Note: The table shows that most of the investors in Saudi Arabia capital market are individual investors.
Source: Tadawul annual report, 2012

[39] This might have an influence on the social justice role of SCIFs, as the large number of small investors might be one of the reasons for social justice's lack of influence in society.
[40] According to the Tadawul and CMA annual reports the government does not invest in investment funds. The government, however, owns a big share in some listed firms such as Sabic and Saudi telecommunication companies.

The following section now presents the background of the regulations for investment funds in KSA for both Sharia and conventional investment funds.

2.6 History of Investment Funds in Saudi Arabia

Investment funds first started in conventional banks in Islamic countries but investors were not comfortable participating in these funds because of the fear of unlawful transactions according to Islamic law such as Riba (interest). Sharia compliant investment windows in conventional banks (Alnafaesa, 2010) began to appear to establish Islamic investment funds and establish Sharia committees to averse their operations and legitimise their activities. The first investment fund in Saudi Arabia was established in December 1979 by Al Ahli Bank, currently called NCB Capital Co. The first law for investment funds was issued in 1993 by SAMA and, by the end of 1998, the number of investment funds was 114. The first Islamic investment fund in Saudi Arabia was an equity fund, established in 1986 by Samba Bank (Alnafaesa, 2010). Saudi Arabia considers the biggest market of SCIFs in term of the market shares (Lewis, 2010). Most investment funds in Saudi Arabia are equity funds as the majority of investors prefer this type of funds. In addition, most of these funds are investing in Saudi Arabia stock market (CMA annual report, 2012). Table 2.6 presents the number of funds and the total assets of these funds under management.

Table 2.6
Investment Funds in Saudi Arabia

End of Year	No. of Funds	No. Of Investors/ Subscribers	Domestic Assets	Foreign Assets	Total Assets of Funds
			Million Riyals		
2005	199	568,284	116	21	137
2006	214	499,968	61	23	84
2007	252	426,085	80	25	105
2008	262	374,975	61	14	75
2009	244	356,331	74	15	90
2010	243	320,415	74	20	95
2011	249	293,905	65	18	82
2012	240	275,624	70	18	88

Note: the table shows the change of operating funds and number of subscribers since 2005. Funds assets in Saudi Riyal ($1 = SR3.75).
Source: Saudi monetary agency-first quarterly statistical bulletin, 2010 and 2012.

2.6.1 Investment Fund Regulation in Saudi Arabia

An investment fund is defined in article 39 in "Capital Market Law" as:

> "…a collective investment scheme aimed at providing investors therein with an opportunity to participate collectively in the profits of the scheme which is managed by a portfolio manager for specified fees."

The capital market law obligates the CMA to establish laws to regulate portfolio managers and investment advisers and supervise them (Capital Market Law). These Investment fund regulations[41] were issued by the CMA on 24/12/2006 to regulate the establishment, offering and management of investment funds in Saudi Arabia.

2.6.2 Overview of Investment Fund Regulations

To establish an investment fund, fund managers must be qualified and authorised by the CMA. Fund managers will be authorised if they are compliant with "Authorised Persons Regulations" (APR) issued by Royal Decree in 2005. Also, they must be licensed by the

[41] It has 10 parts: (i) general provisions; (ii) authorization; (iii) disclosure; (iv) organisation of investment funds; (v) fund managers; (vi) fund governance; (vii) fund management; (viii) specific categories of funds; (ix) offers and redemptions of units; (x) public and entry into force (CMA, 2012).

CMA to manage investment funds. To become fund managers, an application is made to the CMA. If applicants meet the specified details of the APR, they are authorised (Investment fund regulation[42], 2006).

The units of investment funds offered can be private or public, but must be through a fund manager. The fund managers are responsible for the administration, custody and management of the assets[43]. Public fund managers must provide the CMA with information about all matters relevant to the investment fund and the administrative system used (Investment fund regulation, 2006).

Financial institutions have several general disclosure and reporting obligations, and rules for appointing investment funds management that are qualified. However, fund managers must also be aware of additional responsibilities if they operate an international fund (Investment Fund Regulation, 2006).

The CMA regulates the funds that are established in the Kingdom but, it approves the marketing of overseas funds. In this case, CMA requires safeguards contained in the investment fund regulation to be met for investor protection. Overseas funds must be marketed by an authorised local manager, but management of the fund itself is allowed to be outside of the kingdom (Investment Fund Regulation, 2006). The next section covers Islamic funds as a particular sector of the fund management industry.

[42] Issued by the Board of the Capital Market Authority, Dated 3/12/1427H Corresponding to 24/12/2006.

[43] Private funds are considered private if the amount payable by each person to whom the offer is made is not less than one million Saudi Riyal and they must be in a category as stipulated in the investment fund regulations. These categories are the government of the Kingdom, SAMA, any supranational authority recognized by the CMA, authorized persons acting for their own account, institutions acting for their own account, or any other persons the CMA considers exempt.

2.6.3 Sharia Based Investment Fund Regulation

There is no particular regulation or rules for Sharia based investment funds in the Saudi investment funds regulation but there are rules in different places regarding Sharia based investment (see appendix2.3). Under article number 34 “permitted fees and charges”, fund managers have the right to transfer from cash assets or receive payment from investors as units in the investment fund to meet costs and one such cost is a Sharia committee fee, if any (Investment Fund Regulation, 2006).

Under a second rule established in article number 38 “investment policies and practices” fund managers must ensure that Sharia based investments are in line with the criteria provided by scholars who provide advice for the fund. In the case of a lack of any criteria, the fund manager must report to the fund’s board to discuss the issue at its next board meeting (Investment Fund Regulation, 2006).

The third rule is in Annex 1 in investment fund regulations “requirements of terms and conditions”[44]. In point number 21, the Annex mentions that Sharia based funds must disclose information, and this information is considered to be the minimum level of disclosure and includes: (i) the Sharia committee members’ names and their qualifications; (ii) the compensation for Sharia committee members and the source of this compensation; (iii) the criteria used by Sharia members to decide that investments are compliant with Sharia principles (Investment Fund Regulation, 2006). The next section provides an overview about fund managers and investment funds to articulate the importance of Sharia compliant funds in KSA capital market.

[44] This is very related to the second empirical work in chapter 7.

2.6.4 Investment Funds Market in Saudi Arabia

According to the Capital Market Authority 84 persons are authorized to conduct securities business and 34 fund managers are allowed to provide investment funds to investors (Tadawul, 2012). The biggest fund manager is “Riyad Capital” with 34 investment funds, including 12 Sharia compliant funds, followed by “NCB Capital” with 25 investment funds, but NCB capital is considered to be the biggest provider of SCIFs as 23 out of its 25 funds are Sharia compliant. The third biggest manager is Saudi Hollandi Capital with 22 investment funds of which 10 are Sharia compliant (see Table 2.7) (Tadawul, 2012).

Twenty six out of the 34 fund managers provide Islamic or SCIFs in the Saudi capital market; NCB Capital has 23, followed by HSBC Saudi Arabia Limited with 15 and Al Rajhi Capital with 14. The number of Islamic funds in the whole of the Saudi market is 159, out of a total of 244, and represents 65% of all funds invested (see Table 2.7) (Tadawul, 2013).

Table 2.7
Fund Managers in Saudi Arabia

	Fund Managers	No. of Investment Funds	No. of SCF	% Of SCF
1	ALBILAD Investment	6	6	100
2	ANB Invest	17	7	41
3	Al Rajhi Capital	14	14	100
4	Al-Khabeer Capital	2	2	100
5	Al-Nefaie Investment Group	1	1	100
6	Alawwal financial Services Co	4	4	100
7	Alinma Investment	2	2	100
8	Alistithmar Capital	10	4	40
9	Aljazira Capital	6	6	100
10	Aloula Geojit capital	1	0	0
11	Arbah Capital	1	1	100
12	Audi Capital	2	0	0
13	Bakheet Investment Group	3	2	67
14	BlomInvest Saudi Arabia	1	0	0
15	Derayah Financial	3	3	100
16	EFG-Hermes KSA	1	0	0
17	FALCOM Financial Services	8	8	100
18	Global Investment House Saudi	2	1	50
19	HSBC Saudi Arabia Limited	21	15	71
20	Itqan Capital	1	1	100
21	Jadwa Investment	7	7	100
22	KSB Capital Group	6	6	100
23	Middle East Financial Investment	3	3	100
24	Morgan Stanley Saudi Arabia	1	0	0
25	Muscat Capital	1	0	0
26	NCB Capital	25	23	92
27	Rana Investment	1	0	0
28	Riyad Capital	34	12	35
29	SHUAA Capital Saudi Arabia	3	2	67
30	Samba Capital & Investment Management	20	8	40
31	Saudi Fransi Capital	11	8	73
32	Saudi Hollandi Capital	22	10	45
33	The Investor For Securities	3	3	100
34	Watan Investment & Securities	1	0	0
	Total	**244**	**159**	**65**

Source: Tadawul, 2012.
Note: the table shows all fund managers and the number of SCIFs provided by each one.

There are 16 types of investment funds as shown in Table 2.8. Of the 144 equity funds 88 are Islamic, representing 61% of all equity funds. International and local trade finance funds are second with 33 funds, and all of these are Islamic. Balanced international and local funds are third with 31 funds of which 18 are Islamic. These three types of funds represent 85% of all Islamic funds (see Table 2.8) (Tadawul, 2013). Thus, most of investment funds in KSA are Sharia compliant and hence it may should have a role to increase social justice in society.

Table 2.8
Type of Investment Funds

	Type of Fund	No. of Funds	No. of Sharia Compliant Funds	Percent Of Sharia Compliant Funds
1	Stock Local	65	39	60%
2	Stock Intl	33	22	67%
3	Stocks US	5	1	20%
4	Stock EUR	6	2	33%
5	Stock ASIA	9	3	33%
6	Stock ARAB	26	21	801%
7	Bonds Intl	8	5	63%
8	Bonds Local	1	0	0%
9	Money Market Intl	6	1	17%
10	Money Market Local	10	4	40%
11	Trade Finance Intl	12	12	100%
12	Trade Finance Local	21	21	100%
13	Guar & Secure local	1	1	100%
14	Balanced Intl	24	11	46%
15	Balanced Local	7	7	100%
16	Real Estate	10	9	90%
Total		**244**	**159**	**65%**

Source: Tadawul (Saudi stock exchange), 2013.
Note: the table shows all fund types and the number of SCIFs in each type.

2.7 Conclusion

This chapter provides a brief background about the Saudi Arabian political, governmental and legal systems and the KSA economy to provide a context for this thesis. In the second part, this chapter highlights the regulatory bodies and regulations that are related to investment funds and the last part of the chapter focuses on general and statistical information about fund managers, investment funds and of particular relevance to this thesis, SCIFs. In the next chapter, a more detailed review of the literature related to this thesis is undertaken on prior studies related to the SCIFs industry before the thesis goes on to consider the influence of SCIFs on social justice in KSA.

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Chapter 3

Literature Review

3.1 Introduction

This chapter reviews the academic and professional literature about Islamic banking in general, and SCIFs in particular, to provide a general picture of current practices. At the beginning, the background and basis of SCIFs are outlined and discuses how Islamic banking and finance are based on Islamic religious teaching. Accordingly, the chapter will start with information about Islamic law and how it is related to Islamic banking and finance and then on how Islam focuses on social justice. The reminder of the first part of the chapter contains a literature review related to SCIFs. The second part of the chapter provides a summary of literature about SRI and ethical investment funds, and it is an important part of the chapter, as SRI and ethical investment share similarities with SCIFs. This literature review will help to understand the relationship between social justice and Islamic finance. The chapter is organised as follows: Section 3.2 discusses Islamic law and the Islamic teachings on which Islamic finance and SCIFs are based. In addition, it presents information about some of the social justice concepts in Islam. Section 3.3 discusses Islamic banking and finance and focuses on Islamic financing tools which are also used in SCIFs. Section 3.4 provides information about the governance of Islamic banking and finance and focuses on Sharia supervisory boards and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Section 3.5 presents the literature on reporting in Islamic financial institutions. Section 3.6 discusses SCIFs, their characteristics and their screening practices. Section 3.7 covers socially responsible investment funds (SRI) and ethical investment funds, as they share some similarities with SCIFs[45]. Section 3.8 summarises and concludes the chapter.

[45] As there is very little literature regarding SCIFs, a review of investment funds that share a similarity with SCIFs funds is included for illustrative purpose.

3.2 Islamic Law (Sharia)

Islamic law encompasses all life aspects for Muslims (Haniffa, Hudaib, and Mirza, 2004; Lewis, 2005; Yusof et al., 2011; Szczepanowicz, 2011; Harvey, 2012; Ismail and Possumah, 2013) and is defined, according to Lewis (2001, p.104; Lewis, 2005) as:

> "The way to the source of life and, in a technical sense, it is now used to refer to a legal system in keeping with the code of behaviour called for by the Holy Qur'an and the hadith (the authentic tradition)".

Lewis (2001) explains that Islamic law does not restrict human freedom but provides several rules to prevent the exploitation of people and achieve justice. El-Gamal (2006b) states that: "Islamic law offers the most liberal and humane legal principles available anywhere in the world". Islamic law has a variety of sources that scholars depend upon to arrive at judgments on any issues and then provide their opinions, known as Fatawa. Accordingly, Islamic law depends on different knowledge sources (Moustafa, 2012) to regulate people's lives, which guarantee social justice for all. The main point of Sharia law is to support social justice, equity, and fairness in all business transactions, and rests on the promotion of entrepreneurship, the protection of property rights, and the transparency and sanctity of contractual obligations (Ariss, 2010). Sharia is considered the law that emphasises "moral, ethical and legal principles and promotes a certain code of behavior described by the Holy Qur'an and describes or lists both the unwritten and written code of obligations toward every sphere of human activity" (Szczepanowicz, 2011, p.26). Sharia includes regulations of all life activities such as prayer, manners, ethics, marriage, business, financial transactions and contracts.

Pollard and Samers (2007) identify the primary sources of Islamic law that affect Islamic banking and finance. The first is the Holy Qur'an. It is the word of God as delivered to Muslims by the Prophet Mohammad (Iqbal and Lewis, 2002; Derigs and Marzban, 2009; Siddiqui, 2007; Napier and Haniffa, 2011; Moustafa, 2012). According to Lewis (2001, p.105):

> "The Holy Qur'an is for Muslims in the most literal sense the word of God, and Islamic law flows directly from it and is wholly inspired by it".

Second is the Sunnah, which means: "…an explanation of the Qur'an condensed into ways of acting" (Iqbal and Lewis, 2002; Pollard and Samers, 2007, p.314; Derigs and Marzban, 2009; Siddiqui, 2007; Napier and Haniffa, 2011; Moustafa, 2012). Third is Ijtihad, which means making an effort to interpret the Qur'an and the Sunnah in a compatible way without breaching Qur'an and Sunnah rules and guidance (Pollard and Samers, 2007; Osman, 2011; Moustafa, 2012), and it is the derivation of guidelines by scholars from both the Qur'an and Hadith (Derigs and Marzban, 2009; Siddiqui, 2007). Fourth is Qiyas which means reasoning by analogy. In addition, there are three adaptive mechanisms which scholars can also use with regard to Fatwas. These mechanisms are: Urf, which are the customs of the local people; Maslaha, which means the public interest or for the benefit of the community; and Darura, which means necessity[46] (Pollard and Samers, 2007; Osman, 2011; Moustafa, 2012).

As noted above, the two most important sources of Sharia are the Qur'an and Sunnah, but the Qur'an and Sunnah do not include all the direct answers for all present day problems (Visser, 2009). If scholars cannot find answers to a problem in the Qur'an and Sunnah[47], they can then start looking to other sources of Sharia (Moustafa, 2012). One notable point is that Muslim scholars sometimes disagree with each other (Ikhtilaf), so there is might be no consensus regarding issues that are not stated clearly in the Qur'an or Sunnah (International Fiqh academy, 2013; Moustafa, 2012). Accordingly, the Qur'an and Sunnah are the most important sources for Sharia, including that for Islamic finance.

[46] Generally darura makes "the prohibited things permissible as this constitutes a well-established fiqh maxim in shariah "Necessities permits the forbidden" (Al-Darurat Tubih Al-Mahzurat)" (Abozaid, 2010, p.69). For example, the Islamic scholars have permitted conventional insurance in this circumstance on the basis of darura or necessity (Thomas, 2001).

[47] For instance, there are several verses in the Qur'an and several hadith in Sunnah prohibiting Riba (usury).

For contemporary issues that are not touched upon directly in the Qur'an and Sunnah, Islamic scholars then turn to other Islamic sources. In such cases, every scholar has his[48] own way when it comes to analysing a problem, depending upon his knowledge and the way in which the problem has been described to him. The scholar then presents the Fatwa (opinion) (Fiqh Academy, 2013; Moustafa, 2012). Thus, Sharia is guidance in everything because "Islam also draws our attention to some variables and supplies us with some descriptive statements that fall within some academic disciplines, such as economics, sociology and psychology" (p.8) and lead people to know what is right and what is wrong (Ismail and Possumah, 2011).

3.2.1 Key Guidance in Islam

Sharia offers several key guidance principles that affect Islamic finance and help to fulfil social justice. Kamla et al. (2006) discuss Islamic principles and how they affect the accounting and governance of Islamic banking and finance, and highlight several key, guiding principles. The first concept considered to be a key guiding principle is the unity of God (Tawheed), which means the union and equity of all God's creations (Kamla, Gallhofer, and Haslam, 2006; Asutay, 2007). Tawheed is the most important principle, as it indicates the oneness of God (Ansari, 2011). Valibeigi (1993) explains that Tawheed means that the:

> "direction of evolution of all creation is toward God; eventually all creation will be dissolved under the encompassing might of the Creator" (p. 796).

Valibeigi (1993) continues that:

> "The populist advocates extend the domain of Tawhid to social and economic phenomenon by arguing that the unity of God and its creation also means "equality" of all men in the society" (p. 796).

The ethical practices socially and economically should stem from Tawheed. Tawheed asks for unity of thought action and value across humanity (Ajija and Kusreni, 2012) and unity

[48] Most credible and well known scholars today are men, but that does not mean that Sharia knowledge is exclusive only for men. For example, there are a lot of women working in Saudi Arabia universities who hold a PhD on Sharia.

between the religion and the state because the "state and religion must be the same in order for people to worship and obey only one power. There cannot be human laws or constitutions, only the Sharia, God's law" (Szczepanowicz, 2011, p.25).

The second concept is that of Trusteeship (khalifah), which means that the people in this world are selected as trustees (Kamla et al., 2006; Lewis, 2010; Ajija and Kusreni, 2012). The earth belongs to God and people should protect it from destruction. Every person is accountable for his/her resources and how they use them (Haniffa, 2002). While Tawheed emphasises the unity between God's creations, Khalifah emphasises taking care and not abusing but developing God's creations to fulfil social justice (Kamla et al., 2006). Lewis (2010) notes that:

> "Economic, financial and natural resources are held in trust from God, and mankind is accountable to God and the community for the use that is made of them" (p.48).

The third concept is that of Community principles, which means that the person must care about the community, and social justice, so the community must also care about individuals (Kamla et al., 2006; Hassan, 2012). "Justice, honesty, prudence and moderation are among elements that must be embedded in a Muslim's character" (Lewis, 2010, p.47). Humankind is part of nature, and should have the right to live with dignity through fulfilling social justice (Kamla et al., 2006; Lewis, 2010). The community principle focuses on the idea of justice as respecting people through developing the environment surrounding people's lives (Kamla et al., 2006) without abusing God's creations to fulfil social justice. The person cannot enjoy life while other individuals suffer, Islam "emphasises the welfare of the community over individual rights" (Lewis, 2001, p.109). Kamla et al. (2006) explain that social justice for human beings is important in Islam:

> "Allah commands justice, the doing of good (equity), and charity to kith and kin, and He forbids all shameful deeds and injustice and rebellion: He instructs you, that you may receive admonition" (Qur'an 16:90, Cited by Kamla et al., 2006; Hassan, 2012).

The fourth concept is that of the boundless scope of Islamic concerns, which means the adoption of a holistic approach (Kamla et al., 2006). Islam is concerned also with protecting the well-being of future generations. The Prophet Mohammad said "…do not leave those who come after you a burden (of your doings) to deal with" (Al-Qaradawi, 2000). Kamla et al. (2006) explain that, according to Islamic principles, the focus is on sustainable development through the prohibition of waste and abuse of the earth's natural resources, and working to develop the environment to fulfil social justice.

In the same line, Dusuki (2008) explains that the most important dimension of Islamic banking and finance is that it promotes helping the poor. Sharia principles require people to be concerned about poverty issues and the equal distribution of wealth to fulfil social justice (Haniffa et al., 2004). Islamic finance must start to emphasise issues related to society and the environment rather than just focus on maximising profit.

3.2.2 Social Justice

There are different Islamic principles and key guidance that affect Islamic economics[49], directly or indirectly, creating a system that is based on Islamic law (Sharia). One of these principles is social justice. In Islamic economics and finance there is little attention paid to social justice because writing about the "Islamic quality of economics" ignores the descriptive aspect of Islam and is concerned with normative assumptions only (Possumah and Ismail, 2011, p. 8).

[49] Economics is based on certain paradigm, philosophic foundations and a system of belief and the Islamic economic system is based on Sharia (Possumah and Ismail, 2011).

Islam emphasis on social justice can be found in the Quran and Sunnah. For example, the Qur'an notes:

> "And give full measure and weight with justice" (6: 152).

And:

> "So give full measure and weight without defrauding men in their belongings and do not corrupt the world after its reform. This is better for you, if you are believers" (7: 85).

In Sunnah:

> "Certainly God looks not at your faces or your wealth; instead He looks at your heart and your deeds" (Muslim, v. 4).

And:

> "Whoever humiliates or despises a Muslim, male or female for his poverty or paucity of resources, will be disgraced by God on the Day of Judgment" (Musnad Imam).

Also, several Islamic scholars have developed different thoughts about social theory in Islam in trying to spread social justice in society. For example, Imam Ibn Taimiyyah (1269 AD- 1328 AD) suggests starting an agency to create regulations to decrease unfair or unjust transactions in the market. He was the first one in Islam to suggest an institutional approach based on Sharia principles (Hassan and Lewis, 2007). Sayyid Qotb (1906 AD- 1966 AD), also explains that there are three elements to social justice in Islam. These elements are "the absolute freedom of conscience, the complete equality of all men, and the social interdependence among members of the society" (Qotb and Shepard, 1996, p.16). In addition, Qotb (1996) mentions that social justice from the Islamic view consists of different concepts, such as mercy, love, help, and mutual responsibilities between Muslims in particular and all human beings in general. However, this does not mean economic equality between people, because this is against nature, but guarantees a life with dignity (Qotb and Shepard, 1996; Loboda, 2004).

There is no specific definition of social justice in Islam[50], as it is contained in all Islamic teachings. In this regard, Chapra (1979) explains that Sharia's objectives are to promote wisdom and the welfare of the people in this world these came before profit and the wealth of ones self. Social justice is an important part of Islam and, in Islam, every part is related to each other part. Shujaat (2004) explains that:

> "The faith of Islam, which deals with the whole field of human life, does not treat the different aspects of the life in the mass, nor yet does it split up the field into number of unrelated parts" (p.3).

Thus, social justice in Islam contains a number of concepts and those that might are relevant to this thesis are: equality; fairness; Takaful (social interdependence); brotherhood; Hisba (verification); mercy; Zakat; Sadqa (benevolence); and Qard Hassan (loan witout charging interest). These social justice concepts are now discussed as they are related to this study.

Equality and fairness are very important concepts for social justice. According to Kuran (2004), the social justice principle depends upon applying the concepts of equality and fairness (Kuran, 2004). These two concepts are considered to be the foundation of the Islamic message. As the Prophet Mohammad said:

> "O My servants, I have forbidden oppression for Myself and have made it forbidden amongst you, so do not oppress one another" (Hadith 24 of Forty Hadith by An-Nawawis)

The term 'equality' means that all people in the community should have the ability to have a good life and it requires the community to distribute its wealth equally. There should be no residents in the community who are living in luxury while others are living below the poverty line in the same community (Kuran, 2004). Abu-Tapanjeh (2009) explains that the absence of equality will lead to social injustice. Equality in Islam does not mean complete equality in wealth but in a way whereby everyone can enjoy what they deserve.

[50] For the purpose of this study, the definition of social justice from this study perspective identified in chapter one.

Also, as mentioned earlier, Tawheed means equity between all God's creations. Accordingly, the concept of equality stems from Tawheed and it is a very important concept to fulfil social justice.

The term 'fairness' means that everyone in the community should gain what they have earned, while everyone should suffer a loss if they deserve it. The first principle is concerned with the outcome of the economic process, while the second principle is concerned with the process and distribution of wealth to ensure fairness (Kuran, 2004). Abu-Tapanjeh (2009) indicates that Islamic teachings are based on fairness and according to Ainley, Mashayekhi, Hicks, Rahman, and Ravalia (2007) "The Islamic economic model emphasises fairness" (p.4). The fairness and equality concepts in Islam mean prohibiting and preventing the oppression of people and helping the oppressed to obtain their rights so they can participate in social justice. Thus, equality and fairness should encompass Islamic finance to gain social justice (Dusuki, 2010).

Takaful (social interdependence) is important for social justice as it works to build a secure, united and peaceful society (Al-Alak, 2010). It means "each individual in the society is entitled to help needy people to guarantee a level with basic human needs despite of their religion or race" (Al-Alak, 2010, p. 91). Takaful can be financial or emotional. Financial Takaful is achieved by participating in covering one's financial issues and emotional Takaful is achieved through advice, friendship or sympathy (Obaidullah, 2005; Al-Alak, 2010). The basic concept of Takaful is mutuality. In financial Takaful[51] (Islamic insurance), everyone provides money to a common fund. In specific cases, the participants in that fund will be indemnified. In addition, any compensation must not be provided from outside the Takaful fund, which is what makes Takaful insurance different from

[51] It is used widely as a type of insurance in Islamic financial institutions. Takaful concept started in Islamic financial institutions for first time in Sudan in 1979 (Abdul Wahab et al., 2007).

conventional insurance (Archer et al., 2009). As a result, Takaful increases social justice in society.

The concept of brotherhood is similar to Takaful but the difference is that whereas Takaful is about a group of people caring about one or more needy persons, brotherhood is the personal relationship between two people that makes them care about each other. The Prophet Mohammad (pbuh) said, “The Muslims in their mercy towards each other are like a body, if single part of it complains the other parts would be affected” (Al-Bukhari and Muslim). It considers one of the important concepts for social justice (Chapra, 2009). Chapra (2009) explains that the brotherhood:

> “demand that all individuals be considered as equals and treated with dignity and respect, and that the fruits of development be shared equitably by all, irrespective of their race, colour, age, sex or nationality” (p.2).

Brotherhood can be considered as an obligation of Muslims towards other people (Lewis, 2010). Thus, brotherhood is based on the community principle and that profit should not be the only thing when considering an investment.

Hisba (verification) which indicates an observation of community action to prevent unjust action (Falgi, 2009). Allah said:

> “Let there arise out of you a band of people inviting to all that is good, enjoining what is right, and forbidding what is wrong: They are the ones to attain felicity” (Quran, 3: 104).

The Hisba imposes social justice by applying the two important principles of equality and fairness (Kuran, 2004).

Mercy is a concept of social justice in Islam as well. It emphasises tolerance and forgiveness. The Prophet Mohammad said “The Believers, in their affection, mercy and sympathy towards each other, are like the body- if one of its organs suffers and complains, the entire body responds with insomnia and fever" (Obaidullah, 2005, p.14). Thus, investment should not be at the expense of the health of the people, the environment or society.

Zakat and Sadqa (benevolence) support social justice in society. Zakat is different from Sadqa because it "is a religious levy or almsgiving as required in the Holy Qur'an and is one of the five pillars of Islam" (Hassan and Lewis, 2007, p. Xviii; Visser, 2009). Zakat must be paid once a year, while Sadqa does not have a limit or time (Nainggolan, How, and Verhoeven 2011). Visser (2009, p.27) explain that Zakat:

> "…in most cases, 2.5 percent on a number of assets. It is levied from adult, sane, free Muslims on productive assets that are held for at least one lunar year".

Kuran (2004) explains that most economists see Zakat as a very powerful instrument in terms of achieving equality and social justice in the community and it helps to solve social and economic problems (Ismail and Possumah, 2013). Lewis (2001, p.118) differentiates between Zakat and tax as:

> "A tax in a modern society is an obligation of individuals and other entities toward the state, whereas zakat is an obligation of a Muslim not only to society and the state, but also to Allah".

Sadqa is charity for the sake of Allah and not obligatory charity (Atia, 2010). According to Hassan and Lewis (2007) and Atia (2010), Zakat and Sadqa are related to responsibility in Islam, which conflicts with the western concept of the focus on only profit maximisation. Farooq (2008) notices that the main goal of Zakat and Sadqa is not achieved because most Muslims pay Zakat without knowing or thinking about "where it went or how it was utilised or whether it made any meaningful and sustainable impact on the life of the recipients" (p.50). Also, there is a misunderstanding that Zakat and Sadqa are just for poor people while, under Islamic law, poor people are just one of eight different groups[52] that may have nothing to do with poverty (Farooq, 2008). Zakat is an important tool for Islamic finance, because it is obligatory under Islamic law, but is not used effectively these days (Ismail and Possumah, 2013). Sadqa is important because it is the umbrella for charity and it is a way to extend non-government organisations (NGO) work and "is being utilised to finance micro-enterprise and micro-finance" (Atia, 2010, p.9). Zakat and Sadqa are two methods in Islam to fulfil justice and fair of wealth distribution in society (Lewis, 2010). As a result, both can help to fulfil social justice, if allocated well.

Finally, Qard Hassan, it is the granting of a loan without charging interest (Lewis, 2001; Chapra, 2001, Chapra, 1985[53]; Yaqub and Bello, 2012; Saad, 2012). It is one of the important concepts for social justice that is related to Islamic finance. Lewis (2001) and Farooq (2008) explain that Qard Hassan should be free of interest for people in need for social purposes. Brown and Skully (2008) and Maali, Casson, and Napier (2006) explain that Qard Hassan is one of the methods for promoting social justice in Islamic finance because it can be used, for example, to finance microfinance institutions (Atia, 2010) or establish investment funds to provide people with Qard Hassan from the fund's profit.

Thus, social justice in Islam is based on a variety of concepts, the sum of which will result in social justice. These concepts are identified by the interviewees in the first empirical work as important concepts to achieve social justice, but the rational that they can be

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[52] Those eight groups are those who are poor, those who are needy, those who are slaves to free them, those who are engaged in zakat collection, those whose hearts need to be won over, those who are in debt, the wayfarer, and those who are on the path of Allah.

[53] Chapra (1985) defines Qard Hassan as: "A loan which is returned at the end of the agreed period without any interest or share in the profit or loss of the business" (p.68).

related to SCIFs to have a social justice role in society is absent[54]. The following section discusses the need for critical theory in Islamic finance.

3.2.3 Islamic Principles for Economics and Business

The two most important sources of Sharia, the Qur'an and Sunnah, provide Muslims with several guidelines and principles related to ethics and finance (Lewis, 2010). These principles shape the main characteristics of Islamic banking and make Islamic banking and finance different from conventional banking and finance. These principles include Riba, Zakat[55], Haram, Gharar and Mysir and Takaful[56] (Lewis, 2001). In particular, Riba, Haram Gharar and Mysir must be excluded from all SCIFs (Lewis, 2010). These principles all support the principles of social justice and relate to the first and second research questions. These principles are also applied by SCIFs before investing in investee companies using what are called Sharia investment screening criteria.[57]

3.2.3.1 Riba

Riba (usury) is strictly prohibited in Islam in terms of either paying or receiving any interest (Lewis, 2001; Manage, 2011; Yaqub and Bello, 2012). Islam has forbidden usury and encourages Qard Hassan, which is the giving of a loan without charging interest (Lewis, 2001; Chapra, 2001; Yaqub and Bello, 2012). One of the aims of prohibiting usury is that Islam asks people to work and be active with respect to building the community. Mirza and Baydoun (1999, p.40) explain that Riba is prohibited because it concentrates wealth in the hands of a few and so causes injustice in society. Moreover, Malaysia's former Prime Minister, Dr. Mahathir Mohamad, states that an interest free system will free people from the slavery of debt (Visser 2009, p.9). Some scholars mention that Islam is

[54] The concepts of social justice that identified in this study are related to the first and second research questions.
[55] This has already been discussed earlier, see section 3.2.2.
[56] This has already been discussed earlier, see section 3.2.2.
[57] The Sharia investment screening criteria will be discussed later, in section 3.6.

not the only religion prohibiting interest (Chapra, 2001; Visser, 2009; Stevens-Haas, 2011; Mimouni and Ali, 2012). For example, Lewis (2007) and Chapra (2001, p.1) states that:

> "It is not Islam alone which has prohibited interest. Other major religions like Judaism, Christianity and Hinduism have also done the same. The Bible disapproves of interest severely and makes no distinction between usury and interest''.

Mirza and Baydoun (2000) argue that Riba (usury) breaches the principle of social justice, in that it provides benefits to people who neither make an attempt nor contribute to the risks of any project financed. Interest-based transactions allow lenders to take advantage of lending their money, but do not participate in the risks and losses attached to ownership. As a result, prohibiting Riba in Islam is an obvious example of social justice (Rahman, Yahya, and Nasir, 2010). The "concentration of wealth in the hands of a few" people causes inequality and, as a result, breaks the rules of social justice (Haniffa et al., 2004, p.19). Taking and paying interest in the Western banking system is an example of creating disparities. This system helps only the rich, since poor people, for example, do not "undergo hardship of saving at the cost of the basic necessities" (Fasih, 2012, p.98). Islamic equity funds are different from conventional ones because they cannot invest in certain sectors or pay or receive interest (Lewis, 2010; Hayat and Kraeussl, 2011; Walkshäusl and Lobe, 2012; Bassens, Derudder, and Witlox, 2011; Olson and Zoubi, 2008, Hearn, Piesse, and Strange, 2012). For example, "…Muslims are prohibited to receive and to pay interest, to invest in unethical companies" (Hayat and Kraeussl, 2011, p.189). The main reason for prohibiting Riba is the rule of social justice, as Ariss (2010) mentions, is that: "it is believed that the primary reason for doing so is to remove any form of injustice in business transactions" (p.102). Regarding SCIFs, the findings from this study empirical work confirm that SCIFs can not invest in companies that earned more than 5% of its revenue from the interest.

3.2.3.2 Haram

All transactions on the part of Islamic banks must be compatible with Sharia. For example, Muslims are prohibited from dealing with alcohol, socially; in business, and even in medicine, unless there is a necessity (Lewis, 2001; Maali et al, 2006; Bassens et al., 2012). Sometimes Islamic banks are forced to consider Haram transactions according to Islamic law. For example, in some countries, the banks should deposit some of their customers' deposits in interest-bearing accounts at the central bank. Furthermore, banks may have to deal via letters of credit with non-Islamic banks. In these cases, the Islamic banks must dispose of the interest earned from these transactions. The banks are supposed to disclose the way they dispose of these not-allowable transactions, as part of its social responsibility (Maali et al, 2006). The main reasons for prohibiting these things in Islam is due to their effect on human beings' health, the environment, or society and that will cause injustice. Concerning SCIFs, the findings from the empirical chapters for this study verify that SCIFs can not invest in companies that its industry is prohibited in Islam such as alcohol industry.

3.2.3.3 Gharar/Mysir

Gharar and Mysir are types of prohibited business which are clearly identified in verses in the Qur'an. El-Gamal (2001) translates Gharar as "trading in risk", while Lewis (2001, p.119) defines it as undertaking a: "venture blindly without sufficient knowledge or to undertake an excessively risky transaction". In other words, it is the uncertainty and ignorance of one or both parties to the contract regarding the substance of the object of the sale or doubt over its availability at the time of the contract. To avoid Gharar in contracts, Visser (2009, p.45) identified three conditions:

> "(i) Make sure that both the subject and prices of the sale exist, and that parties are able to deliver; (ii) specify the characteristics and the amounts of the counter values; and (iii) define the quantity, quality and date of future delivery, if any".

Thus, Islamic jurists reject commercial insurance and financial derivatives because they involve uncertainty risk and gambling (Al-Saati, 2003; Abdul Wahab, Lewis, and Hassan, 2007; Htay and Zaharin, 2012). The rejection of all types of insurance is because that engages in unidentified risk. The only type of insurance that is not prohibited is mutual or joint guarantee insurance or, in Arabic, Takaful[58] (Lewis, 2001; Swartz and Coetzer, 2010). Regarding Mysir, Lewis (2001, p.119) defines it as "…games of hazard, implying that the gambler strives to amass wealth without effort". Therefore, Mysir is rejected in Islam because it is related to gambling and speculation. Thus, SCIFs must be based on tangible assets (Lewis, 2010). Islamic banking and finance should follow these principles but there are a lot of difficulties with this, since its very beginning. In term of SCIFs, the findings from empirical works show that SCIFs can not invest in insurance companies since they based on Gharar, from Islamic perspective. The next section discuss the emerging of Islamic finance.

3.3 Islamic Banking and Finance

In the last century, most Islamic countries were occupied by Western nations. This occupation left its influence on the Islamic world in terms of politics, economics, banking, business, contracts, and social issues (Lewis, 2001). Many Muslims did not like this Western influence, as many of them wanted to live in accordance with Islamic law (Sharia). Accordingly, after these Islamic countries gained their independence, many of them rejected Western laws[59], especially those dealing with business and finance, as they contradicted some Islamic principles. Such notions resulted in the emergence of Islamic banking and finance, which were considered a step towards an Islamic economy (Kamla, 2009).

[58] It is suitable for non-Muslims as well (Swartz and Coetzer, 2010).

[59] As many Muslim countries were colonised by Western countries, these ideas influence Muslim countrie's finance and accounting (Altarawneh and Lucas, 2012).

The idea of an Islamic economic system was started in India and Pakistan by Sayyid Abu'l-A'la Maududi in 1941 and was followed by Anwar Iqbal Qureshi and other scholars in 1946. Those scholars revealed Islamic thoughts in Islamic economics and tried to develop a theoretical framework for Islamic banking and finance (Visser, 2009). As mentioned above, Sharia is an important factor in the lives of Muslims. Accordingly, Islamic banking should be consistent with the principles of Sharia. Maali et al. (2006, p267) define Islamic banks as: "those banks that claim to follow Islamic Shari'a in their business transactions" and social justice is part of Sharia. In the same vein, Yaqub and Bello (2012) define Islamic Banking as "a banking system which is in consonance with the spirit, ethos and value system of Islam and governed by the principle laid down by Islamic Sharia".

The first Islamic bank was established in Malaysia in the 1940s (Zaher and Hassan, 2001) followed by another one in Pakistan in the late 1950s, the Farmer's Credit Union (Zaher and Hassan, 2001; Maali and Napier, 2010), while the first Islamic bank in an Islamic Arabic country was established in Egypt in 1963, Mit Ghamer Saving Bank (Maali and Napier, 2010) but neither were commercial banks. After that, the growth of Islamic banking and finance was rapid (Hassan and Lewis, 2007; Dusuki, 2008; Hearn et al. 2012; Ariss, 2010) and Islamic commercial banks and financial institutions become established with the first one being Dubai Islamic Bank, in 1975, followed by Faisal Islamic Bank in Egypt and Sudan in 1977 (Maali and Napier, 2010). Islamic banking and finance grew quickly in the early 2000s (Ainley et al., 2007); the huge number of Muslims around the world who wish to invest and save their money according to Sharia principles is a reason for the fast growing Islamic banking and finance sector.

In a recent study, Hoepner, Rammal, and Rezec (2011) note that the Islamic finance industry is expected to reach 1 trillion dollars in the next few years (Hoepner et al., 2011). Every year, there is 12-15% growth in assets under the Islamic institutions' management (Olson and Zoubi, 2008). The growth is worldwide as Sole (2007) and Visser (2009) note, especially in the Middle East, America, and Europe. Olson and Zoubi (2008) explain that there were "277 Islamic banks and financial institutions operating in over 70 countries in 2005" (p.46), but this has grown since then and according to Walkshäusl and Lobe (2012):

> "One of the major innovations in the financial community is the rapid growth of Islamic financial services around the world. Today, Sharia-compliant assets amount to $939 billion worldwide. While there are more than 600 Islamic funds available…" (p.1).

The growth of Islamic banking and finance occurred initially in South Asian Islamic countries, such as Malaysia[60] and Pakistan but, since the 1990s, the growth area has shifted to GCC countries (Olson and Zoubi, 2008). According to Hoepner et al. (2011), many Sharia compliant assets are "based in countries such as Saudi Arabia, Malaysia or Kuwait" (p.829). However, Islamic and conventional institutions operate in the same competitive environment and are regulated in the same way in most countries, which might mean that "it is possible that Islamic and conventional banks display similar financial characteristics" (Olson and Zoubi, 2008, p.46). According to Olson and Zoubi (2008): "in recent years Islamic banks have chosen to behave more like mainstream banks instead of strictly following Sharia principles" (p.47), yet Islam emphasises the importance of society, and even goes beyond this by being concerned with the environment and social justice (Kamla et al., 2006). Thus, the Islamic financial institutions should consider social justice.

Hoepner et al. (2011) explain that "Western financial institutions and governments have also developed a strong interest in Islamic finance" (p.829). For example, in 2004, US

[60] In 1962, the Malaysian government established the "pilgrim's Management Funds'' to help Malaysian people visit Makkah for the Hajj. This can be considered one of the roles of social justice in investment funds (Zaher and Hassan, 2001).

President George Bush selected the first Islamic finance advisor in residence for the White House. Similarly, some years ago, the UK Prime Minster Gordon Brown announced that he would like to make Britain the 'gateway' for Islamic banking (El-Gamal, 2007; HM Treasury, 2008). The British government announced that the UK was "the leading centre for Islamic finance outside of the Gulf Cooperative Council (GCC) and Malaysia" (HM Treasury, 2008, p.5). The UK aims to be considered one of the leading countries for Islamic finance education. Islamic finance services are offered by many financial institutions in the UK, including Barclays, HSBC, Lloyds and RBS. The market leader is HSBC's Islamic finance division Amanah,[61] which realised annual asset growth of more than 50% in 2007/2008 (Hoepner et al., 2011). Other non-Islamic countries, such as the USA, France, Germany and Switzerland, are also working to develop Islamic financial services to attract more investors, especially petro-dollars (Hoepner et al., 2011). The wide spread of Islamic finance is one manifestation of globalisation (Lewis, 2010).

Islamic banking and finance was established around fifty years ago[62], whereas conventional banks have been in existence for hundreds of years, thus Islamic banks are still young, and so they may encounter several problems (Dusuki, 2008). Pollard and Samers (2007) highlight several obstacles to Islamic banking: (i) a lack of experts in both financial practice and Islamic law; (ii) lower profits than conventional banks; (iii) a lack of knowledge among Muslims regarding Islamic banking products; (iv) the compatibility between Islamic bank products and Western regulations; (v) the conflict between scholars on Sharia Supervisory Boards; and (vi) the problem of innovation with regard to new Islamic products due to a shortage of global regulations.

[61] Some financial institutions create a new brand for Islamic financial activities such as Amanah (HSBC) and Noriba (UBS) (Hassan and Lewis, 2007).
[62] The first modern Islamic bank initiative in 1963 in Egypt and it was social banking initiative (HM Treasury, 2008).

Although Islamic banking and finance stems from a religious background, which is different from conventional banking and finance, Kuran (2004) argues that Islamic tools such as Murabaha, Sukuk and Ijara,[63] practised by Islamic financial institutions, are similar to interest-based systems from an economic standpoint. In the same vein, Hassan and Lewis (2007) note that Islamic financial institutions structure their financing tools similarly to conventional products. For example, Sukuk and Ijara are:

> "…generating returns to bankers and investors that are, being derived from the levying of a "cost-plus" rate of profit formula, as fixed, certain, and safe under Islamically compliant financing modes as any interest-based conventional loan" (Hassan and Lewis,2007, p.152).

Kuran (2004) argues that this conflict in terms of Islamic banking and finance principles or the similarity between Islamic banking and finance and conventional banking and finance activity occurs because these tools mainly focus on profit without taking social justice into consideration. Kuran (2004) explains that Murabaha and Ijara are more appropriate for short-term finance with a predetermined return. This is better for a bank's profits than providing long-term finance with uncertain returns. These financing tools and others, however, are used in SCIFs[64]. The next section will discuss governance of Islamic financial institutions.

3.4 Governance of Islamic Financial Institutions

Islamic financial institution should have governance over their investments to ensure that all investment activities are in line with Islamic law. They have an obligation to their investors to avoid breaching any Sharia law and to do so they use Sharia Supervisory Boards (SSBs). This section highlights the SSB's role, and highlights the AAOIFI initiatives to establish finance and accounting standards for Islamic financial institutions.

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[63] Islamic banks contracts and tools such as Murabaha and Ijara will be explained in more detail later.
[64] The SCIFs financing tools will be discussed later in this chapter.

3.4.1 Sharia Supervisory Boards (SSB)

Islamic financial institutions' provide confidence to investors through the use of Sharia Supervisory Boards[65] (SSB) (Grais and Pellegrini, 2006; Masood, Niazi, and Ahmad, 2011). SSBs are religious advisors to Islamic banks. They must have a deep knowledge of Islamic law and they play an important role in Islamic funds because they certify Sharia compliance with regard to the various transactions of the financial institution (Karim, 1989; Garas, 2012)[66]. SSBs are considered to be knowledgeable and competent in Sharia law. The opinion issued by an SSB is considered as a legal opinion, known as a fatwa (Garas and Pierce, 2010; Szczepanowicz, 2011), but it is possible to find contradictory fatwas about the same issue because "it is a legal opinion and therefore should be considered a legal doctrine" (Szczepanowicz, 2011, p.28).

In the same vein, Szczepanowicz (2011) explains that the main work of SSBs in financial institutions is guaranteeing that all transactions are based on Islamic ethics and principles (Garas and Pierce, 2010; Szczepanowicz, 2011; Walkshäusl and Lobe, 2012). The SSBs' work includes:

> "…certifying permissible financial instruments through fatwas (ex-ante Shariah audit); verifying that transactions comply with issued fatwas (ex-post Shariah audit); calculating and paying zakat (a tax on wealth) to charity; disposing of non-Shariah compliant earnings; and advising on the distribution of income or expenses among shareholders and investment account holders. The Shariah Supervisory Board also issues a report to certify that all financial transactions comply with the above mentioned principles" (Szczepanowicz, 2011, p.28).

SCIFs must be under the supervision of a Sharia supervisory board to approve that investments are in accordance with Sharia (Lewis, 2010). The role of the SSB in Islamic

[65] The AAOIFI governance standard (2008, No. 1, Para 2) defines the SSB as: [. . .] an independent body of [Shari'a scholars] with a [possibility of including] a member other than a Shari'a scholar, who should be an expert in the field of IFIs. The SSB is entrusted with the duty of directing, reviewing, and supervising the activities of the IFI in order to ensure that they are in compliance with Islamic Shari'a.

[66] Some of the SSBs rely on general rulings issued by the international jurisprudence councils (El-Gamal, 2006b).

funds is: (i) to monitor activities and ensure that Islamic guidance is followed; (ii) to provide a quarterly report to investors regarding the fund's status; (iii) to help fund managers address any Muslim community concerns; (iv) to give advice regarding Zakat calculations; and (v) to make themselves aware of any new issues within the financial markets (Elfakhani, Hassan, and Sidani, 2007). The SSB "approves proposed companies and monitors the compliance of their business activities with the guidelines of the Sharia" (Walkshäusl and Lobe, 2012, p.1). In the same vein, Haniffa and Hudaib (2007) and Garas and Pierce (2010) explain that the main purpose of SSBs is to deal with compliance associated with Islamic law. All products and transactions must be approved by that financial institution's SSB members as the SSB members are a group of professional Islamic jurisprudence experts. An SSB member must be independent of the financial institution management and possess financial competence. SSB members usually undertake the following obligations, to various degrees:

> "setting the Shari'ah rules for the conduct of banking business, examining all or part of the bank's transactions to ascertain whether there have been breaches of the Shari'ah rules and issuing a statement in the annual report of the bank, as to whether or not the bank has conducted its business in compliance with the Shari'ah'' (Haniffa and Hudaib, 2007, p.102).

Some argue that international guidelines are needed for SSBs, to strength their credibility (Grais and Pellegrini, 2006), and it is important that there is a high level of transparency so that investors know the procedure and role of SSBs (Ball, 2004).

Karim (1989) examines the independence of SSBs as ideally, SSBs are independent, just as external auditors are, since they decide upon important matters that may affect stakeholders' decisions. SSBs are similar to external auditors (Karim, 1989; Garas and Pierce, 2010) in that both report on the institutions' operations (Karim, 1989) but the SSB reports on Islamic law and moral values while the external auditor reports on economic transactions. Also, as Karim (1989, p.38) states regarding SSB independence:

> "…it would seem that the public would assume independence unless they had evidence to the contrary. Indeed, the public may question the independence of the SSB in a situation where there is plenty of opposition to the process of Islamisation or where the relationship between the SSB and the bank's management is suspect".

However, according to Bassens et al. (2011), SSBs are not as they should be. He explains that:

> "First, on the actor-level, an analysis of the interlocking activity of Shari'a scholars has shown that there is evidence for the existence of a transnational Shari'a elite. These scholars are experts in Islamic law and have considerable (religious) authority throughout the ummah. Mainly as a means to enjoy customer credibility, both fully-fledged IFS firms and Islamic windows within and beyond the Middle East, employ these renowned scholars to sit on their Shari'a boards. As such, these high-profile scholars not only exert power through traditional fatwas, but they actually shape the face of a globalizing IFS sector as well, through their role in product screening and innovation" (p.101-102).

According to AAOIFI[67], each Islamic financial institution's SSB should contain at least three qualified scholars[68]. Also, they must be independent in order to have integrity within the community and they should not have any interest in the institution with which the SSB member works. According to Szczepanowicz (2011), if the SSB's members earn a salary or hold a position in the financial institution, accordingly impartiality may be compromised and affect them making unbiased opinions (Szczepanowicz, 2011).

Another issue regarding SSBs is the broad interpretation of Islamic religion (Sharia) between scholars may cause conflicts between Islamic institutions whereby some products are accepted in some Islamic financial institutions but are not accepted in others (Olson and Zoubi, 2008). For example, some Sharia scholars prohibit investments in hotels or restaurants that serve alcohol while others allow investment in hotels or restaurant with a certain percentage of prohibited or Haram sales (Nainggolan et al., 2011). Accordingly, the role of SSB members should influence investment activities and be concerned for social

[67] AAOIFI will be discussed later in this section.
[68] The AAOIFI governance standard (2008, No. 1, Para 7).

justice. Thus, one group that will be interviewed by the researcher, as part of the first empirical work, is the SSBs members as they have knowledge and power that can influence the role of SCIFs to have a role of social justice in society.

3.4.2 Accounting and Auditing Organisation for Islamic Financial Institutions

Islamic financial institutions face problems because of the different ways in which every bank is run in different manners with regard to Islamic related financial matters[69]. Thus, there is a lack of disclosure, especially with regard to social justice and the Islamic perspective. This makes comparison between Islamic financial institutions difficult to analyse and research. Due to the afore-mentioned problems, the AAOIFI was established in Bahrain in 1991 (Maurer 2002, and Kamla, 2009; Ariss, 2010; Napier and Haniffa, 2011; Uddin, 2012). AAOIFI's standards are not widely used in Islamic financial institutions (Napier and Haniffa, 2011) but might are considered as guidance for them.

AAOIFI is based in Bahrain and is an Islamic, international, independent, non-profit making body, which establishes accounting, auditing, governance, ethics and Sharia standards for Islamic financial institutions (Maurer, 2002). In addition, it provides two professional qualification programmes, the first of which is a Certified Islamic Professional Accountant (CIPA), and the second is a Certified Sharia Adviser and Auditor (CSAA) (AAOIFI, 2013). AAOIFI has invited representatives from different Sharia Supervisory Boards from different countries and financial institutions to be part of its work in setting the standards and this has strengthened confidence in the Islamic institutions (Maurer, 2002); however, the standards issued by AAOIFI remain voluntary (Karim, 2001). AAOIFI's objective is to set standards for the Islamic financial institutions (Maurer, 2002) that are compliant with Islamic teachings but these financial standards may not have the objective of improving social justice to the extent that this study wishes to be achieved by SCIFs. A possible

[69] For example, the reporting of Islamic financial institutions are not comparable (Karim, 2001).

reason for this is that AAOIFI's standards are merely trying to mirror the IASB and produce IFRS standards (Karim, 2001; Lewis, 2001) as that will facilitate the globalisation financial convergence.

Nevertheless, there are several critics of AAOIFI. Napier and Haniffa, (2011, p. iv) note that "the "political and economic" nature of AAOIFI's standards has resulted in limited adoption of those standards outside Bahrain". Karim (2001) criticises AAOIFI for building for example its accounting standards on IAS[70]. He argues that IAS are inadequate for the unique characteristic of Islamic financial instruments because they do not take into consideration the influence of culture and religion or Islamic values. In addition, AAOIFI is also criticised for the stress it places on technical issues regarding prohibiting interest and the emphasis on calculating Zakat (Maurer, 2002; El-Gamal, 2006b; Kamla 2009). Although, Tinker (2004, p.442) states that: "religion and science have played a sometimes decisive influence in the history of capitalism", AAOIFI's standards are designed on a capitalistic point of view, and do not impose Islamic teachings that would increase social justice. The following section discusses the issue of the lack of social reporting of Islamic financial institutions as a result of them not having a social justice role.

3.5 Issues in Islamic Financial Institutions

Full disclosure, keeping records, and having social accountability are all important principles in Islam (Lewis, 2001). Islam encourages full disclosure especially about issues that affect Muslims' lives, such as the environment and business (Lewis, 2001; Kamla, 2005; Kamla 2006). However, financial institutions take into consideration materiality

[70] Since 2001, the new set of standards has been known as the international financial reporting standards (IFRS) and has been issued by the International Accounting Standards Board (IASB).

in their disclosure of information (Lewis, 2001) but arguably materiality should be different for Islamic financial institutions than conventional ones by focusing on social justice and how Islamic principles have been met. SCIFs invest in companies that touch people's lives and this requires disclosure regarding their investment processes and procedures for accountability to their investors. Rahman et al. (2010) explained that:

> "…accountability to Allah also encompasses one's accountability to society and therefore may be interpreted as promoting social justice and social responsibility" (p.19).

One issue for Islamic financial institutions is their social reporting[71] to discharge their social justice objectives. Such reporting in Islamic financial institutions is, however, different from bank to bank (Karim, 2001). First, every country has its own set of regulations regarding their own financial institutions.[72] Second, the opinions of Islamic Supervisory Boards in Islamic financial institutions differ (Karim, 2001); and third the standards issued by AAOIFI are still only voluntary (Karim, 2001). Accordingly, the reporting of Islamic financial institutions are not comparable (Karim, 2001), reducing transparency and the ability to develop the industry and ignore any social justice objectives. The contribution to the community is not reported and is below the expectations of what Islamic financial institutions should produce and they do not present enough information with regard to what is important since, in theory, Islamic financial institutions should have higher goals than just making a profit.

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[71] Social reporting is discussed to illustrate the issue of disclosure by Islamic financial institutions as it affects social justice as well.

[72] Karim (2001) divides the way in which the Islamic financial institutions report their financial information into three approaches. The first includes countries such as Malaysia, the Sudan, and the UAE, which regulate Islamic financial institutions by the Islamic Banking and Finance Acts. The second includes countries such as Bahrain, Saudi Arabia and Egypt, which regulate Islamic financial institutions through the use of laws that govern both Islamic and conventional financial institutions. The third includes countries such as Lebanon, which regulate Islamic financial institutions by the use of fiduciary law.

3.5.1 Social Reporting in Islamic Financial Institutions

An important type of reporting in Islamic financial institutions is social reporting as it is stems from Islamic teachings (Haniffa and Hudaib, 2002; Haniffa and Hudaib, 2004; Haniffa and Hudaib 2007; Maali et al. 2006). Tinker (2004) notes that Islam is a religion and is socially constituted, as reflected in business. Mirza and Baydoun (1999) explain that social information is important in Islamic business and that Islamic principles advocate good business practices that include social activity towards the community. In the same vein, Mirza and Baydoun (1999) mention that most studies about Islamic banking focus on the technical aspect of calculating Zakat or avoiding Riba, and miss discussing the social and ethical dimension of Islamic financial institutions.

However, as mentioned earlier, Islamic financial institutions should, in theory, put a great deal of stress on social justice. Social justice can be achieved through the social activities provided by financial institutions as there are many social justice concepts in Islamic teachings. Rahman et al., (2010) argue that social justice is an important concept in social reporting. Rahman et al., (2010) and Maali et al. (2006)[73] study social disclosures on the part of Islamic financial institutions and each study creates a benchmark to include the concepts of accountability, social justice and ownership. The results of the Maali et al. (2006) study were as follows: (i) on average, Islamic banks provide only twenty five sentences in their annual reports regarding social activities; (ii) the average number of sentences regarding social reporting by banks following the AAOIFI standard was 30.1 sentences, while it was 21.7 for banks not following the AAOIFI standard; (iii) most of the banks that declared themselves to be following AAOIFI standards, in reality, did not follow its requirements; (iv) none of the banks disclosed information about their procedures regarding treating the environment; (v) the

[73] Rahman et al., (2010), Maali et al. (2007) and other studies' checklists were adapted in this thesis for chapter 7 but modifications and new items were developed too.

average number of sentences about social disclosure in Islamised economies[74] was 19, while for banks operating in a non Islamised system, it was 27 sentences; (vi) the amount and nature of revenue of unlawful transactions was usually reported, for example, depositing part of customers' deposits in interest-bearing accounts at central banks; and (vii) only two banks provided detailed information about Qard Hassan which is important in Islam. Maali et al's. (2006) conclusion is that Islamic banks do not report matters that might affect their image, they provide a good deal of information about their charitable work and donations in order to reflect a positive image, but they do not mention anything about social justice or their accountability. In the same vein, Rahman et al's. (2010) findings were not consistent with Maali et al's. (2006) study, however, both documented a serious problem in terms of full disclosure and accountability towards God and the Islamic community (Maali et al., 2006; Rahman et al, 2010). These Islamic financial institutions appeared to be more interested in their own reputation than in social justice. The following section discusses investments of Islamic financial institutions stemming from the ethics and moral values of the Islamic religion. This section has informed the second empirical work of this study, as the checklist items were carefully selected from the Islamic social reporting literature; however, for the purpose of this study, some modifications and new items were developed too.

3.6 Ethical Investment by Islamic Financial Institutions

Both Muslims and non-Muslims can invest ethically in Islamic financial institutions as Islamic finance follows the moral and ethical values that stem from Islamic teachings (Wilson, 1997; Ariss, 2010; Hayat and Kraeussl, 2011). As an example, SCIFs may follow similar screening criteria processes as Western ethical investment funds (Wilson, 1997; Jouaber et al., 2012). One example of such screening criteria is that SCIFs do not invest in

[74] Such as Pakistan.

companies that produce or distribute alcohol-related products (Wilson, 1997). The ethical principles that Islamic investment funds rely on depend on the religious teachings of Islam (Forte and Miglietta, 2011). However, according to Obaidullah (2005), the values of Islam are unimportant for investors compared with maximising their profits. Islamic finance should aim to "stress equal emphasis on both financial and ethical returns" (Nainggolan et al., 2011, p.1) and financial performance should not be the only target of investment funds (Forte and Miglietta, 2011).

Szczepanowicz (2011) mentions that "Islam emphasises a religious approach to life" (p.iii). Accordingly, the base for Islamic finance is Islamic law which is based on the Qur'an (Szczepanowicz, 2011) and the Qur'an asks people to act "ethically as well in a socially oriented manner" (Szczepanowicz, 2011, p.25). For that, Islamic financial institutions depend on basic Islamic ethical teachings, which are:

> "The five main Shariah principles that are permanent include the prohibition of riba, application of al-bay' (trade and commerce), avoidance of gharar (ambiguities) in contractual agreements, the prohibition of maisir (gambling), and prohibition from conducting business involving prohibited commodities such as pork, liquor, illicit sex, and pornography" (Szczepanowicz, 2011, p.27).

The emphasis in such principles shows how Islamic finance concerns ethical investing and avoiding unclear business practices. Sharia emphasises investing according to the profit-sharing and partnership investment principles (Olson and Zoubi, 2008; Walkshäusl and Lobe, 2012; Fasih, 2012) and business relationships must be "backed by real assets" (Fasih, 2012, p.98). Ariss (2010) explains that:

> "…Islamic finance mandates a return on capital. However, this return on capital depends greatly on the performance of the activity being financed. Risk-taking, and not the passage of time, justifies the return on capital" (p.102).

3.6.1 Sharia Compliant Investment Funds

SCIFs or Islamic investment funds, "like any investment pooling system, collect individual savings for investment and the sharing of benefits" (Lewis, 2010, p.43). SCIFs are a particular example of ethical investment and many Muslims invest in so-called Islamic or Sharia equity investment funds (Hayat and Kraeussl, 2011). Adherence to Sharia principles is the financial institutions SSBs' responsibility (Walkshäusl and Lobe, 2012) whereby each one "approves proposed companies and monitors the compliance of their business activities with the guidelines of the Sharia" (Walkshäusl and Lobe, 2012, p.1). Thus, Muslim investors are looking for investments that contain both Islamic ethics and offer acceptable performance (Jouaber, 2012). This section discusses SCIFs as a type of ethical investment that can improve social justice in society.

SCIFs were founded in the early 1990s, after Sharia scholars accepted equity investments in accordance with the ethics of Islamic law (Hassan and Lewis, 2007; Hayat and Kraeussl, 2011). First, SCIFs cannot guarantee either a principal amount or a rate of return to investors (Lewis, 2010). Second, Islamic equity funds (IEFs) investments have to pass a group of ethical and financial criteria to become eligible to invest in, according to Islamic law (Merdad et al., 2010; Ullah and Jamali, 2010; Hayat and Kraeussl, 2011). In addition, the benchmarks of the Dow Jones Islamic Market Index (DJIM), the Global Islamic Index Series (FTSE) and the Syariah Index (Malaysian Index) give credibility to Islamic investment (Elfakhani et al., 2007; Merdad et al., 2010; Ullah and Jamali, 2010). Muslims form one fifth of the world's population, with an investment of $800 billion, this has increased by 15% per year (Elfakhani et al., 2007). However, only a relatively small amount of funds are invested in Islamic products and thus indicates potential opportunities (Hassan, 2002). Most funds are either equity funds (84%) or secured funds (14%), with the remaining 2% holding Sukuk investments (Elfakhani et al., 2007). However, there are several types of Islamic funds that can be invested in by Islamic banks, such ijara funds and murabaha funds (Elfakhani et al., 2007, Lewis, 2010). The next section will highlight some of these funds.

3.6.1.1 Islamic Investment Funds

SCIFs based on Mudarbah (finance by way of trust) and Musharkah (partnership) are the most authentic Islamic financing tools as well because these are the ones which most closely adhere to the concept of profit and loss sharing principles (Chapra, 1992; Mills and Presley, 1999; Kuran, 2004; Mirakhor and Zaidi, 2007). However, scholars also allow SCIFS to use other types, such as Murabaha (cost-plus financing), Ijarah (leasing), and Sukuk (Islamic bonds). These types are the way that SCIFs invest without breaking Sharia law (Mirakhor and Zaidi, 2007). Nevertheless, SCIFs are not limited only to these tools as there are also commodity, real estate, money market and mixed investment funds (Lewis, 2010). The following are a description of the main investment fund types.

Mudarabah (finance by way of trust)

The idea of SCIFs is based on Mudarabah, whereby the investor gives money to the Islamic fund manager (Mudarib) to invest according to the conditions in the prospectus (Khoja, 1993; Maali and Napier, 2010). Mudarabah involves two individuals, groups, or institutions, whereby the first party provides the money and the second party (Mudarib) manages it. The profit is distributed based upon a predetermined ratio. In times of loss, the money provider loses his money and the Mudarib loses his time and perhaps his job (Lewis, 2001; Mirakhor and Zaidi, 2007; Maurer, 2002; Bassens et al., 2011). As most investment funds in KSA are equity funds (Ashraf, 2013) this study focuses mainly on this type in both of empirical works.

Musharkah (partnership)

SCIFs consider a Musharkah contract between investors and the financial institution (Khoja, 1993). Musharkah is the creation of a company between two parties where both provide the capital. Profit is shared between both parties according to a predetermined ratio. However, the loss is shared according to the exact ratio of capital that is provided by each partner (Lewis, 2001; Mirakhor and Zaidi, 2007; Bassens et al., 2011; Saripudin, Mohamad, Razif, Abdullah, and Rahman, 2012). Mudarabah and Musharkah are profit and loss sharing contracts (Bassens et al., 2011).

Despite the fact that Musharkah and Mudarabah are the most authentic Islamic financing tools, they are rarely used in Islamic banks and financial institutions (Visser, 2009; Bassens et al., 2011; Shaikh, 2011; Farooq and Ahmed, 2013). According to Shaikh (2013, p.12) Mudarabah and Musharkah financing is not used "due to [the] lack of authentic documentation and [the] trust level is also very weak." Kuran (2004) mentions that, in Pakistan, which has a fully Islamised banking system, the use of Musharkah and Mudarabah is approximately one percent. Also, in the Islamic Development Bank,[75] the proportion of Musharkah and Mudarabah contracts fell from 55 percent to 1 percent. Dar and Presley (2000) identify some of the reasons for the lack of use of profit and loss sharing contracts (PLS) in Islamic financial institutions, in particular Mudarabah and Musharkah. The reasons stem from: (i) the inherent vulnerability of PLS contracts to agency problems, moral hazard and adverse selection problems, in view of the fact that the bank is incapable of watching the real work being carried out by the borrowers; (ii) the well-defined property rights that are needed for them to function efficiently are not provided; (iii) the competition from

[75] The Islamic Development Bank is an international financial institution established in pursuance of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries held in Jeddah in Dhul Q'adah 1393H, corresponding to December 1973. Its purpose is to foster the economic development and social progress of the member countries. It is based in Jeddah in Saudi Arabia(ISDB.org, 2013).

conventional banks which have more competitive products compared to Islamic banks; (iv) the absence of a secondary market for PLS; and (vi) the over-regulation of Islamic banks in some countries. Visser (2009) adds that PLS contracts may cause loses because they are more risky which makes them less attractive to Islamic financial institutions (Hassan and Lewis, 2007; Farooq and Ahmed, 2013). Thus, SCIFs do not invest in partnership contracts and hence their social justice role is diminished; if they invested more in these types of arrangement there would possibly be more social justice.

Murabaha (cost-plus financing)

In term of investment funds, Lewis (2010) explains that Murabaha funds offer a fixed return to investors based on cost-plus profit rates for Murabaha. Islamic financial institutions use Murabaha widely and in Saudi Arabia there are 33 Murabaha SCIFs (Tadawul, 2013). In a Murabaha contract, the financial institution agrees to purchase a good or product from a third party and to resell it again with a mark up to the client (Lewis, 2001; Mirakhor and Zaidi, 2007; Ahmed and Suliman, 2011). Pollard and Samers (2007) mention that Islamic financial institutions depend on Murabaha or cost-plus financing more than they do on Mudarabah or Musharkah because it is less risky (Hassan and Lewis, 2007; Visser, 2009; Farooq and Ahmed, 2013) and it guarantees financial returns for SCIFs. However, there is an argument that Murabaha is no different from conventional banks' products. Kuran (2004) argues that the Murabaha procedure looks similar to interest. According to Muslim scholars, Murabaha is legitimate or is allowed in Islamic banks because the mark up is for the service that the financial institution provides to the customer. This might impact on social justice as there is no real sharing principle or benefit to society.

Ijara (leasing)

Ijara is one tool that SCIFs can invest in (Usmani, 2007) but it is not common. Lewis (2010) explains that Ijara funds offer fixed returns to investors and that based on "fixed leasing charges on capital equipment on hire purchase" (p.45). Ijara is a contract whereby financial institutions agree to purchase a product from a third party and rent it to clients for a fee (Mirakhor and Zaidi, 2007; Yaqub and Bello, 2012). Under this type of agreement, the client agrees to purchase the product at the end of the contract. Nevertheless, some argue that Ijara is incompatible with Sharia Law (Mirakhor and Zaidi, 2007). Kuran (2004) argues that, in Ijara, the financial institutions transfer the risk to a third party by requiring the client to pay insurance for that asset. The financial institution itself does not carry any risk. From an economic standpoint, there is also no difference from an interest-based system.

Sukuk (participation securities)

Sukuk, or Islamic bonds, are different from conventional bonds because they are an exchange of underlying assets (Saripudin et al., 2012). However, these assets must be in line with Sharia. Mirakhor and Zaidi (2006) explain the difference between bonds and sukuk as follows:

> "The basic difference between conventional bonds and sukuk lies in the way they are structured and floated. In the conventional system of bond issue and trading, the interest rate is at the core of all transactions. In contrast, the Islamic sukuk are structured in such a way that the issue is based on the exchange of an approved asset (for example, the underlying assets could include buildings, hire cars, oil and gas pipelines and other infrastructure components) for a specified financial consideration. In other words, sukuk are based on an exchange of an underlying asset but with the proviso that they are shari'a-compliant; that is, the financial transaction is based on the application of various Islamic commercial contracts'' (p.53).

Sukuk is used in SCIFs, for example, in Saudi Arabia there is five Sukuk SCIFs (Tadawul, 2013).

All of the above mentioned Islamic investment types can be used in SCIFs but not all are used in KSA (Lewis, 2010) such as Ijara funds. Most fund managers prefer equity funds as they compromise more than 50% of total SCIFs funds (Lewis, 2010; Elfakhani et al., 2007) and that is similar to KSA. By investing according to Islamic ethical and moral values, SCIFs could promote social justice. The following section discusses the approach that Islamic financial institutions adopt to comply with Islamic law.

3.6.2 Sharia Compliant Investment Fund Characteristics

In the Islamic world, a large proportion of Muslims want to invest according to Islamic rules and for this reason, Sharia scholars have started introducing some tolerance parameters as SCIFs are still at an early stage. SCIFs use two types of guidelines for choosing securities: (i) sector guidelines; and (ii) financial guidelines. For this reason, each Islamic financial institution usually has an SSB to govern it and ensure that all of its practices are in accordance with these guidelines (Brown and Skully, 2009). The SSBs' work is essential for investment funds and investors since their opinions are highly respected and influential in terms of investment and their supposed focus on social justice as basic Islamic principles.

The sector guidelines include industries in which SCIFs cannot invest. For example, Islamic investment funds may not invest in companies with prohibited activities such as (non-medical) alcohol, pork, gambling, entertainment, tobacco, non-Islamic financial services and armaments (Pollard and Samers, 2007; Siddiqui, 2007; Elsiefy, 2008; Chong and Anderson, 2008; Brown and Skully, 2009; Kayed and Hassan, 2011; Fasih, 2012). In addition, SCIFs cannot invest in "conventional bonds, warrants, preferred stock, certificates of deposit and some derivatives", nor in "leverage and short selling" (Fasih, 2012, p.831). For some companies, however, their main activity is in line with Sharia but part of their income is prohibited or Haram, and this is where tolerance guidelines are needed (Lewis, 2010). For example, SCIFs can invest in hotels, but it may be prohibited if part of the hotel income is derived from selling alcoholic products or from having a night club on the premises (Derigs and Marzban, 2009). However, some Sharia scholars allow investments in such companies that have a "small proportions of their revenue from a prohibited activity" (Fasih, 2012, p.831, Lewis, 2010) but these investments require investors to donate this proportion of Haram income to charities to purify their earnings from prohibited activities (Lewis, 2010; Fasih, 2012) and this is what most SCIFs practice by giving it to charity, in order to 'purify' the revenue (Siddiqui, 2007).

The financial screening guidelines also regulate investments. One example of financial screening criteria is that used by the Dow Jones to create its Islamic Index. To be included in the index companies must satisfy three financial criteria: (i) the total debt divided by total assets must not be equal to, or greater than, 33%; (ii) the accounts receivable to total assets must not be equal to, or greater than, 45%; and (iii) the non-operating interest income must not be equal to or greater than 5% (Tag El-Din and Hassan, 2007).

Sector and financial screening guidelines are negative criteria and do not involve positive screening criteria that focus on investing in industries that consider respect for humankind, the community and the environment (Siddiqui, 2007), and hence increase social justice. One possible reason for not practising positive screening criteria is that, in the Muslim world, no institution, working as an umbrella for all Muslims, regulates all Islamic Fatwas or opinions and rules for financial issues (Derigs and Marzban, 2009). Another possible reason is that Islamic finance sticks only to "the basic principles of Shariah" (Fasih, 2012, p.98) while Islam "promotes improving one's economics condition, it has to be done within a framework of good values and good economic/business practices" (Ebrahim 2008, p.118). Yet, there is one green SCIF "water-focused investment strategy fund" (Eurekahedge.com, 2013), launched in 2009 that combines Islamic and sustainability screening developed by the UK Islamic Bank Gatehouse and the Swiss Fund Management Company Sustainable Asset Management (SAM) (Lewis, 2010).

Several indices have been established that focus on sector and financial screening as a result of the huge demand for Islamic financial products (Jouaber, 2012). The Dow Jones Islamic Market Index (DJIM) was the first Western Sharia screen to be created, with the purpose of identifying stocks that comply with Islamic law (Siddiqui, 2007). It is a subset of the Dow Jones Global Index, and began with 600 companies in 30 countries. This was filtered down to 3,000 companies after the application of Sharia screening (Hassan and Lewis, 2007). DJIM has its own SSB, unlike the FTSE Islamic index, which uses external sources for its Sharia screening. The members of the SSB at DJIM are from six different countries, increasing the diversity of opinion (Siddiqui, 2007).[76] The DJIM is reviewed quarterly, in order to ensure that it reflects the latest trends and developments in global markets (Hassan and Lewis, 2007).

Because Sharia screening is the most important part of SCIFs, the fund managers should:

> "provide full and fair disclosure of all material facts, including details of their Shari'ah investment screening process and framework which they are mandated to adhere to in their investment, as well as to deal fairly and honestly to avoid all conflicts of interest with their investors" (Nainggolan et al., 2011, p.2).

One of the reasons to investigate SCIFs prospectuses in the second empirical work is that Obaidullah (2005) notes that most of this detailed information is absent from SCIFs' prospectuses and annual reports (Obaidullah, 2005) and hence affects the influence of

[76] There are four major jurisprudence schools in Islam, and these are Hanafi, Shafi'I, Maliki, and Hanbali and that might the reason of having jurists from different countries.

social justice on their practices as they are invisible and that is similar to the findings in the second piece of empirical work. In the same vein, Nainggolan et al. (2011), one of the reasons for that absence is that:

> "Shari'ah is not a set of codified laws but rather a set of interpretations based on the Qu'ran, the Sunnah, and the opinion and consensus agreement of scholars. It follows that judgments tend to be subjective and shaped by personal beliefs and cultural influences. This is further exacerbated by fund prospectuses not disclosing which interpretation of the Islamic law is being followed" (Nainggolan et al., 2011, p.2).

Thus, the second empirical work will examine if SCIFs prospectuses disclose information with regard to social justice from this study's perspective. However, Nainggolan et al. (2011) explain that funds with superior disclosure do not inevitably have superior compliance, signifying that fund managers do not always execute what they state in their prospectuses. Also, the funds that disclose more conservative criteria are more likely to follow closely these criteria (Nainggolan et al., 2011). As SCIFs' objectives stem from Islamic moral values, it should be expected that they have screening investment criteria that focus on social justice. SCIFs share some similarity with socially responsible investment funds (SRI) on screening criteria but are more focused because they were established before SCIFs, and have a richer literature as Forte and Miglietta (2011) note "there is not yet a rich literature documenting Islamic fund behaviour and performance" (p.118). Some SRI funds use screening in line with the ethics of the Islamic religion but they are not used by SCIFs because SRI and Western funds "have moved much further than Islamic funds from an emphasis on the negative to focusing on the positive elements" (Lewis, 2010, p.52). Thus, the literature on SRI may enrich this thesis on SCIFs as Lewis (2010) notes that "a comparison of the Islamic equity funds and the SRI funds reveals a vast canvas of fund categories and types" (p.53). According to the literature available regarding SCIFs there are no studies that relate to SCIFs role of social justice, to the best of the researcher's knowledge. Thus, this study will investigate the social justice role of SCIFs in empirical works to conduct this thesis.

3.7 Socially Responsible Investment (SRI)

SCIFs and socially responsible investment might have different screening criteria but “the issues of stock selection and screening technique are of mutual interest” (Wilson, 1997, p.1325). Islamic investing is very similar to SRI, as both mainly use negative screening (Siddiqui, 2007; Lewis, 2010) but, both could learn from each other to develop positive investment techniques that guarantee a positive influence on society (Wilson, 1997; Lewis, 2010)[77] that fulfils social justice.

Hayat and Kraeussl (2011) mention that non-Muslims see Islamic funds as similar to ethical investment or socially responsible investing (SRI). In the same vein, Ariss (2010) explains that Islamic finance is appropriate for both Muslims and non-Muslims:

> “Because of its socially responsible and ethical underpinnings, the new class of Islamic investments is appealing to both Muslims and non-Muslims who seek to invest in socially responsible products” (p.102).

In addition, Jouaber et al. (2012) states that “Shari’ah compliant investment is often liked to Socially Responsible Investment since their main goals are similar and both are screened” (p.3). Thus, SCIFs and SRI funds have a similarity and both can work to fulfil social justice.

Socially responsible investment (SRI), is also known as ethical investment or sustainable investment (Renneboog, Horst, and Zhang, 2008), but ethical investment is considered an older phrase (Sparkes, 2001; Renneboog et al., 2008; Capelle-Blancard and Monjon, 2012); such investment has grown rapidly all around the world (Renneboog et al., 2008; Kreander,

[77] This section might seem large; however, it is very important because it is line with this study objective. Also, SRI funds can be a template for SCIFs in the future (Lewis, 2010).

2001; Finegold, Ali, and Winkler, 2011; MacLean, 2012) with ethical investment assets increasing from £400 million in May 1992 to £1.1 billion by June 1996 (Kreander, 2001). In the US, investment in these funds increased by 1,200% in the 10 years from 1995, from $162 billion, to $2.3 trillion in 2005, representing about 10% of all assets under management, and SRI mutual funds have grown from 55 in 1995 to 201 in 2005 in the US (Renneboog et al., 2008). Walkshäusl and Lobe (2012; p.1) noted that "Today, Sharia-compliant assets amount to $939 billion worldwide". In Europe, SRI represents 10-15% of European funds under management, and SRI mutual funds have grown from 54 in 1995 to 375 in 2005. The main feature of this investment is that it meets social, environmental, and ethical criteria (Renneboog et al., 2008).

Some institutional investors have converted to, or shown more interest in becoming, SRIs (Renneboog et al., 2008). For example, the California Public Employees' Retirement System (CalPERS), one of the biggest pension funds in the world, has started to invest in socially responsible companies, and encourages companies to become socially responsible. Also, CalPERS was one of the pension funds that decided on tobacco divestment in the late 1990s. In addition, the largest pension fund in Europe, the Dutch Pension Fund for Public Employees (ABP), modified its Code for Prudent Investment Policy in 2000, which now states that ABP will take greater consideration of social, environmental and ethical criteria in its investment process (Renneboog et al., 2008).

3.7.1 History of SRI Funds

SRI funds were established before Sharia compliant investment funds were established in the 1990s (Hassan and Lewis, 2007; Hayat and Kraeussl, 2011). The first investment of this kind occurred in Sweden in 1965, with a fund named Ansvar Aktiefond Sverige (Kreander, 2001; Kreander and McPhail, 2004) and the first UK ethical investment fund was not launched until almost twenty years later, in 1984 (Renneboog et al., 2008; Kreander, 2001; Cortez, Silva, and Areal, 2011). Since then, ethical investment has grown rapidly, competing with both conventional and non-ethical investment funds. The European geographical area associated with ethical investment has expanded rapidly, encompassing countries such as Finland and Spain, that entered the market in 1999 (Kreander, 2001) and first SRI fund in Japan was launched in 1999 as well (Nakai and Takeuchi, 2011). The first SRI fund in the US was established in 1971, named the Pax World Fund. This investment fund was opposed to the Vietnam War and the military industry in general (Renneboog et al., 2008; Cortez et al., 2011; Ferruz, Muno, and Vargas, 2012; Richardson, 2012). This fund was also supported by religious parties, such as the Methodists and the Quakers. The Pax fund prohibited investing in any companies profiting from the Vietnam War (Sparkes, 2001; Kreander, 2001; Schwartz, 2003; Kreander and McPhail, 2004; Jin, Mitchell, and Piggott, 2006; Lewis, 2010; Peifer, 2011). Table 3.1 shows the chronology of the first ethical and environmental funds in Europe.

Table 3.1
First European Ethical and Environmental Funds

Country	Type of Fund	Financial Institutions	Name of Fund	Start Year
Sweden	Ethical fund	Aktie-Ansvar	Ansvar Aktiefond Sverige	1965
UK	Ethical fund	Friend Provident	Stewardship Unit Trust	1984
UK	Environmental	Merlin/JUPITER	Ecology	1988
Sweden	Environmental	Carlson	Varldsnaturfonden	1988
Luxembourg	Bond fund	Luxinvest	Securarent	1989
Norway	Environmental	Skandia/Vesta	Gront Norge	1989
Scotland/UK	Ethical fund	Scottish Equitable	Ethical	1989
Germany	Environmental	Hypobank	Eco-tech	1990
Netherland	Ethical fund	ABF	Het Andere Beleggingsfonds	1990
Switzerland	Environmental	Credit Suisse	Oeco Protec	1992
Belgium	Environmental	KBC	Eco fund	1992
Finland	Ethical fund	Gyllenberg	Forum	1999
Spain	Ethical fund	Morgan Stanley Dean Witter	Fondo Etico	1999

Source: Kreander, 2001, p.14
Note: Table 3.1 shows the chronology of the first ethical and environmental investment funds in Europe.

Sparkes (2001) notes that a large number of UK investors are now involved in ethical investment or socially responsible investment (SRI) and, on 3rd July 2000, the UK regulatory body (The Pensions Regulator) issued regulations that required pension funds to disclose their policies with regards to SRI (Sparkes, 2001; Schwartz, 2003; Bakshi, 2007). The new regulations, as stated by Sparkes (2001), required pension funds to take the following aspects into consideration:

> "(i) the extent (if at all) to which social, environmental or ethical considerations are taken into account by trustees in the selection, retention, and realisation of investments and (ii) the policy (if any) directing the exercise of the rights (including voting rights) attached to investments" (p.194).

In addition, Sparkes and Cowton (2004) state how SRI funds have been transformed from a marginal activity into a mainstream one. Executives of these funds that have investors who are interested in social responsibility must take this into consideration prior to making any investment decision. This similar to SCIFs as fund managers take in consideration Islamic religion requirement before investing.

3.7.2 Religious Background of SRI Funds

The roots of SRI and ethical investment are ancient and stem from religions such as Christianity, Islam, and Judaism (Statman, 2005). Scwartz (2003) argues that ethical investments have existed for thousands of years in the Christian and Jewish faiths. For example, in medieval times, Christianity placed ethical restrictions on loans and investments, and the Catholic Church prohibited usury from 1139 until the 19th century. Additionally, in England, dealing with excessive interest on loans was illegal under the Act against Usury (Glaeser and Scheinkman, 1998; Lewison, 1999; Kiymaz, 2012), as usury was an unethical practice[78]. The background of ethical and social investment can also be attributed to other religious groups, such as Quakers and Methodists (Mallin, 2007; Roca, Wong, and Tularam, 2010; Louche, 2010; Lewis, 2010; Forte and Miglietta, 2011). For example, a church group in the US is pushing companies to be socially active by putting socially based proposals to companies at their annual general meetings (Mallin, 2007) and investing according to values and belief (Kreander, 2001; Forte and Miglietta, 2011) and such a focus increases social justice. An example of such action is ensuring that tobacco advertisements do not encourage young people to smoke (Mallin, 2007). In the same vein,

[78] This is similar to Islamic religion in dealing with interest in banking systems.

in the UK, the Church of England played an important role in pushing for SRI funds. Thus, SRI established as a result of a religious demand similar to SCIFs (Solomon, 2007; Forte and Miglietta, 2011). The churches support for SRI is similar to Sharia scholars in Islamic religion's support for SCIFs as a similarity between both types of investment fund.

The driver of SRI funds by religious groups can be seen from different aspects. Jansson and Biel (2011) explain that this type of investment is determined according to moral values and a true concern about social and environmental issues. Jansson and Biel (2011, p.2) noted that "morally value driven investment is not unknown to investors" (Roca et al, 2010) because these moral values stem from religion in the first place. However, religion is not the only motivation for SRI funds because it can be assumed that the financial institutions recognise a business chance "to attract socially and environmentally concerned customers and by beliefs that SRI delivers higher return on a given level of risk" (Jansson and Biel, 2011, p.2). Several studies that have explored SRI investment funds, compared with conventional funds, have shown that SRI might be financially motivated (e.g. Bauer et al., 2005; Kreander, Gray, Power, and Sinclair, 2005) and that is a similar motivation for financial institutions to establish SCIFs. Nevertheless, SRI and Sharia compliant investment funds can learn from each other and each should have the objective to improve social justice.

3.7.3 SRI Funds

Kreander, Gray, Power, and Sinclair (2002) identify several differences between ethical and non-ethical investment[79] and these issues can apply as well on SCIFs. The first difference is that ethical investment funds choose specific securities according to the criteria they have established. This can be a problem or a challenge for ethical investment

[79] Ethical investment is considered SRI investment as well (Sparkes, 2001; Renneboog et al., 2008) and both phrases will be used in this thesis.

funds in terms of having an efficient portfolio. Second, some ethical investment funds display a bias towards investments in smaller businesses. This is because most large companies focus on maximising profit which may be at the expense of the environment or moral values. Third, there is a lack of analysts and fund managers within ethical investment funds "due to the smaller level of resources available for investment and the lower employee remuneration on offer" (Kreander et al,. 2002, p.5). Fourth, because of the limited number of securities available, ethical funds may have a lower turnover between securities, which may affect portfolio diversification and efficiency, especially for funds that are actively engaged with companies and try to change their practices to the best environmental and ethical polices (Kreander et al,. 2002). According to Sparkes (2001):

> "the key distinguishing feature of socially responsible investment (SRI) lies in its combination of social and environmental goals, with the financial objective of achieving a return on invested capital approaching that of the market" (p.201).

The launch of ethical investment is considered to be demand driven rather than supply driven (Kreander, 2001; Climent and Soriano, 2011; Elliott et al., 2012) such as Sharia compliant investment. However, there is a great deal of controversy with regards to the definition of ethical investment, as there are different definitions in accordance with the purpose of a fund (Sparkes, 2001). For example, there are non-ethical investments which only focus on 'sin' companies; one example of such a fund is known as Morgan FunShares. The founder of this fund argues that firms producing products such as tobacco or alcohol have just as much a right to sell them as customers have to use them (Schwartz, 2003; Koslowski, 2011). Ethical funds and SCIFs, in contrast, include criteria such as social issues, environmental issues, and religious preferences[80] (Sparkes, 2001) that increase social justice.

[80] These screening criteria are examined in the second empirical work.

The UK Pension Act defined SRI in 1995 as:

> "investment where social, environmental or ethical considerations are taken into account in the selection, retention and realization (sic.) of investment, and the responsible use of rights (such as voting rights) attaching to investments" (Bakshi, 2007, p.527).

Kreander (2001) defines ethical investment as:

> "a fund that does not rely solely on financial criteria in security selection, but uses ethical, non-financial criteria when choosing securities" (p.9).

This is expanded by O'Rourke (2003), who defines SRI as:

> "an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis. It is a process of identifying and investing in companies that meet certain baseline standards or criteria of Corporate Social Responsibility (CSR) and is increasingly practiced internationally" (p.684).

Also, the Social Investment Forum, which is a national US non-profit organisation promoting the practice and growth of SRI, defined SRI in 2005 as:

> "an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis" (Statman and Klimek, 2007, p.2).

As can be seen from the above definitions, SRI is understood in various ways, but all of these definitions aim to promote good practice that makes society a better place for all and achieve social justice. According to Sparkes (2001), the word 'ethical' is synonymous with the term 'moral', as both imply and emphasise the principle of sacrifice and caring for others, even at a cost to oneself and that similar to brotherhood[81] concept in Islam. It is also considered that a person with morals will behave in an appropriate manner towards others, without considering profit or any other type of return. Sparkes (2001) emphasises, however, that the term 'ethical' is unsuitable for describing SRI. One reason for this is that there are no agreed codes of ethics and, also, a lack of altruism is considered another reason why the term 'ethical' is inapplicable to SRI. Sparkes (2001) suggests that the phrase 'ethical

[81] Brotherhood is an Islamic concept and was discussed earlier in this chapter – section 3.2.2.

investment' is only appropriate for describing value-based organisations, such as churches, charities and non-governmental organisations, as long they are investing in accordance with a set of beliefs (Sparkes, 2001; Sparkes and Cowton, 2004). Similarly, Schwartz (2003) emphasises that there are two reasons why SRI cannot be described as ethical: firstly, the policies employed by ethical funds are not coherent and, secondly, "these policies are based on mere opinions as opposed to any ethical reasoning" (Schwartz, 2003, p.197). As a result, SRI funds are like SCIFs funds as both claim to use high moral values but, in reality, this is not entirely true. This leads to the importance of focusing on social justice to close this gap. Schwartz (2003) asserts that, if investment funds are to be considered ethical, they must implement high levels of accountability and responsibility. This will require a very high level of transparency disclosure from ethical funds providers, so that their performance may be evaluated easily and efficiently. Such disclosures must provide: (i) a definition of the screening; (ii) details about the resources of social information used in applying the screening; and (iii) disclosure of which parties have confirmed that the screening has been performed correctly. Further, ethical investment funds must be careful about their advertising and refrain from employing emotional material to influence potential investors (Schwartz, 2003).

Sparkes (2001) divides social investment into two types: socially responsible investment (SRI) and socially directed investment (SDI). The difference between them is that SRI considers 'equity-based activity', whereby a firm should act positively, in terms of the use of shareholder influence and power, while SDI is a 'debt based activity': it undertakes projects with a low return or even a below-market return, contributing positively to society, rather than making a profit (Sparkes, 2001). SDI seems to have more socially motivated than SRI, but this study analyses SCIFs, which are more similar to SRI, to see whether SCIFs increase social justice.

3.7.4 SRI Fund Goals

There are many different goals in terms of ethical or social investment. However, most SRI funds share two important, common goals: they provide investors with a choice that meets their social preferences and beliefs, in terms of selecting securities, and second they aim to change corporate behaviour in a positive, ethical way. The first goal is very important, as SRI is essentially supposed to provide investors with applicable choices that do not clash with their values (Schepers, 2003). The second goal has proven fairly ineffective, as there is no evidence that this goal has been attained, except in some cases, such as South Africa, where a large number of institutional funds acted and forced corporations to discontinue their anti-apartheid operations (Statman, 2005; Schepers, 2003) and put immense pressure on mutual funds not to invest in South Africa, because of the racial issues there (Renneboog et al. 2008; Bakshi, 2007). Both goals, however, still need more work if SRI investors' expectations are to be realised (Schepers, 2003) and social justice is to be fulfilled in society.

3.7.5 Selecting Securities for SRI Funds

Fund managers possibly realise that no investee company is 100% socially perfect (Bakshi, 2007) but there are three levels at which SRI can operate: (i) screening portfolios; (ii) direct dialogue with companies; and (iii) investments in community development. The first and second were discussed earlier in this chapter (see section 3.7.3 and 3.7.4). The third, investments in community development, is still in its early stage, as Bakshi (2007) notes:

> ''This still nascent facet pertains to institutions that combine small-scale lending with lessons on finance and personal skill building in order to assist under-privileged people.''(p.528)

In practice, fund managers advertise their ethical funds by explaining the way in which they screen firms to their customers (Rhodes, 2009). For example, O'Rourke (2003) outlines the process employed by one of Sweden's ethical funds (Robur's Miljo¨fond), in order to select securities. This involves considering all companies listed on the Swedish stock market, under all industry groups. Then, information is gathered about these companies by contacting each one to request information, in terms of the funds criteria. Non-governmental organisations are also contacted and asked to provide information. The third stage involves examining each company individually, to see if they operate in accordance with the fund's criteria, and verification of this is obtained by visiting the company. Finally, the fund chooses the best securities, in terms of financial and legal considerations (O'Rourke, 2003).

Kreander (2001) notes that negative and positive screening are two important methods for equity selection in ethical funds. When SRI funds were first established in the West they only focused on negative screening, in a manner similar to SCIFs today (Lewis, 2010). Negative screening aims to identify 'bad' companies, in order to avoid investing in them (Kreander, 2001). According to Schwartz (2003), this type of screening is also referred to as 'sin screening' and often includes firms that trade in the tobacco, alcohol, weapon industries, human rights abuses, animal cruelty and pollution (Schwartz, 2003; Lewis, 2010). These companies may be harmful to society in both the short and long term, and may thus have negative consequences or output: in general, their activities may not be in line with a fund's values and beliefs. According to Kreander (2001), this is considered the commercial ethical approach because it is focuses solely on negative screening without considering other issues that concern society (Kreander, 2001).

Positive screening emphasises investment in companies that have "a positive impact on the economy, the environment and other relevant areas of society" (Lewis, 2010, p.52) The positive type of screening focuses on choosing companies in accordance with several ethical criteria that are in line with a fund's values. This is less commonly used than the first type, but some funds employ positive and negative methods of screening. This type mainly tries to change ‘bad’ companies’ behaviour and activity, encouraging them to act more ethically. The positive screening of ethical funds focuses on selecting companies that have superior standards on matters such as corporate governance or environmental protection. The funds regularly utilise positive screens with a ‘best in class[82]’ approach, ranking firms inside every industry according to, for example, social criteria. The funds include within their portfolios merely those firms that exceed the lowest level of screening in each industry (Renneboog and Szilagyi, 2011; Becht, Franks, Mayer, and Rossi, 2010; Lewis, 2010; Renneboog et al. 2011; Sørensen and Pfeifer, 2011). Sparkes and Cowton (2004) propose that positive screening offers “the dual benefits of a commitment to sustainability plus the hoped-for financial benefits of investing in industries with significant long-term growth prospects” (p. 48). In a best-in-class approach, investee companies within the same sector are “compared and ranked in terms of their ESG[83] performance” (Sørensen and Pfeifer, 2011, p.60). Accordingly, investments will be made in companies with the best ESG performance (Michelson, Wailes, Van, and Frost, 2004). The positive screening and best-in-class method might results increase the financial returns (Chegut et al., 2011). Thus, positive screening will increase the amount of social justice in society.

However, there is some doubt about the SRI and ethical funds’ influences; for example, Laufer (2003) raises the issue of the impact of funds screening on society and whether it is really useful in improving firms’ ethical practices. He believes that more studies are needed, in order to ascertain the impact and consequences of screening. Renneboog et al. (2011) categorised funds into several types and Table 3.2 shows several screening criteria, together with their type and definition.

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[82] Best in class approach consider a developed version of positive screening that arise in the late 1990s (Lewis, 2010).
[83] ESG stands for environmental, social and governance screening criteria.

Table 3.2
Screening Criteria Type and Definition

Categories	Type	Screens	Definitions
Sin	Negative	Tobacco	Avoiding manufacturers of tobacco products
	Negative	Alcohol	Avoiding producers of alcoholic beverages
	Negative	Gambling	Avoiding casinos and suppliers of gambling equipment
	Negative	Weapons	Avoiding firms producing weapons or firearms
	Negative	Pornography	Avoiding publishers of pornographic magazines or video tapes, or firms that provide adult-entertainment services
Ethical	Negative	Animal testing	Avoiding firms that provide animal-testing services or involved in intensive farming of animals
	Negative	Abortion	Avoiding providers of abortion and manufacturers of abortion drugs or insurance companies that pay for elective abortions
	Negative	Genetic engineering	Avoiding firms that develop genetically modified products
	Positive	Healthcare	Selecting firms whose products improve human health
	Negative	Non-marital	Avoiding insurance companies that provide coverage to non-married couples
	Negative	Islamic	Avoiding pork producers and commercial banks. (Used by funds managed according to Islamic principles.)
Social	Positive	Business practices	Selecting firms emphasizing product safety and quality
	Positive	Corporate governance	Selecting firms demonstrating best practices related to board independence, executive compensation, or other governance issues
	Positive	Community	Selecting firms with an active involvement in local communities
	Positive/ Negative	Diversity	Selecting firms pursuing active policies in employing minorities, women, gays/lesbians, and/or disabled persons; or avoiding firms discriminating on gender/race
	Positive/ Negative	Labor relations	Selecting firms that provide good workplace conditions, empowering employee and/or strong union relations; or avoiding firms with poor labor relations
	Positive/ Negative	Human rights	Selecting firms with policies to protect human rights; or avoiding firms with bad records on human rights issues
	Positive/ Negative	Foreign operations	Selecting firms with human rights policies for foreign operations; or avoiding firms employing child labor overseas or operating in countries with oppressive regimes
Environmental	Positive/ Negative	Environment	Selecting firms with high environmental/ecological standards; or avoiding firms with low environmental standards
	Positive	Renewable energy	Selecting firms producing power from renewable energy
	Negative	Nuclear	Avoiding companies operating nuclear power plants

Source: Renneboog et al., 2011, p.567.
Note: the table shows screening criteria types, categories and definitions.

Fund managers may try to influence investee companies to change their behaviour and come into line with their criteria through engaging in straight dialogue with the management or by voting at annual general meetings (Renneboog and Szilagyi, 2011; Becht et al., 2010; Renneboog et al. 2011; Sørensen and Pfeifer, 2011). Not all funds do so, however, and they should be encouraged to engage with companies, in terms of developing and increasing their ethics, financial performance and arguably social justice in the community. There are various ways to achieve this and the best way is by contacting firms and questioning them about ethical issues, in person or by phone. After this, they should try to engage with the firm and initiate ethical polices, in order to help them to operate ethically, rather than simply attacking firms over their lack of ethics (Kreander, 2001). Using negative and positive screening criteria, in addition to engaging with firms, is the best way forward for ethical funds (Kreander, 2001) as this will work towards the achievement of enhanced social justice. Thus, the positive and negative screening will be evaluated and examined in empirical works.

3.7.6 SRI Portfolio

Some investors consider SRI a potential and important path towards sustainable and equitable prosperity (Bakshi, 2006) and SRI can result in non-financial factors being used to select share portfolios. For example, during the first 9 months of the stock market downturn in 2008, the decrease in investment in conventional funds was 94%, while the decrease in SRI was far less, at 54%. Thus, SRI is possibly a more sustainable investment option (Renneboog et al, 2008). The rapid growth of SRI around the world can be partly attributed to governments, and the change in regulations in favour of SRI. For example, the UK regulates the disclosure of social, environmental and ethical investment for pension funds and charities (Renneboog et al., 2008; Solomon, 2007).

Capelle-Blancard and Monjon (2012, p.19) describe the "profusion" of academic research about the financial performance of SRI investment and investment funds. However, there is always doubt whether SRI portfolios are diversified enough. The total risk[84] of any

[84] Markowitz (1952) provides a useful approach to investment research and analysis by starting the use of statistical measures of dispersion as an estimation of risk. He produces mean-variance as a method to establish the optimal portfolio or in other words maximise a mean-variance objective function. The two main criteria of this method are expected (mean) return, E, and variance of return, V, of the portfolio. He explains that means, variances and covariances of securities can be estimated. The estimation will take a statistical analysis form, and the set of efficient mean-variance, after that, can present to choose the wanted risk-return mixture. To apply his model, it is important to know the expected return and the variance of each asset class an input. However, the two assumption of mean-variance optimization are: (i) every assets return follows multivariate normal distribution; and (ii) investors have a quadratic utility function. Regarding first assumption, it takes in consideration that assets return normally distributed and excess kurtosis and skewness.

portfolio will depend on three aspects: (i) the number of securities included in the portfolio; (ii) the riskiness of each security in the portfolio; and (iii) whether the degree of the risk for each security is independent of the others. Solnik (1995) notes that, with regard to several portfolios in different countries, the greater the number of securities in the portfolio, the less likely it is that that portfolio will lose money. However, even with a large number of securities in the portfolio, the portfolio risk will never fall below a certain level of risk (Solnik, 1995). Solnik (1995) examined whether a mixed portfolio of domestic and international securities would decrease the level of risk from a purely domestic portfolio. He found that the portfolio risk of a well-diversified international portfolio decreased more than that of a well-diversified domestic portfolio. A well-diversified international portfolio requires securities to be selected across different countries, and securities to be held from the best industries in the selected countries[85].

For SRI funds, Kreander (2001) raises the question of whether it is fair for ethical funds to be evaluated using the same criteria as those applied to other funds. Several studies show that there is no evidence that ethical or SRI funds have lower returns than other funds; nevertheless, the performance of an ethical fund is subject to the management of that fund and the manager's ability to choose the best securities that perform well, both ethically and financially.

Diversification is an important component in any portfolio. Investors will not usually consider low return investments but, if SRI combines both profit and social aspects, it is an attractive investment for investors, who can make a profit while still making a difference in the world (Solomon, 2007). SRI criteria may make it difficult to create an efficient, well-

The second assumption explains that normal investors have an increasing of risk aversion as the level of wealth rises. The Markowitz approach is in discrete time.

[85] Nevertheless, this advantage may be reduced because of the exchange rate risks. To remove this risk from an international portfolio, forward exchange contracts can be bought (Solnik, 1995).

diversified portfolio, as the efficient market hypothesis argues that it is impossible for SRI funds to perform better than conventional ones (Renneboog et al., 2008). On the other hand, the SRI screening process can generate value-related information that can help fund managers to select good investments (Renneboog et al., 2008). Solomon (2007) explains that, according to portfolio theory, SRI may have low returns because of a lack of diversification and high transaction costs. According to a study conducted by Jansson and Biel (2011), the results for the Swedish market show that both conventional and SRI investors share the same beliefs that "SRI gives less return in the short term but slightly more than conventional investments in the longer term" (p.1). Also, SRI investors appear more enthusiastic about increasing their investments than conventional ones, which will lead to an increased SRI market share. According to this, Jansson and Biel (2011) believe that "the business case for SRI seems therefore to be the only reason for major investment institutions to adopt SRI" (p.1). Conversely, if the demand for shares increases in socially responsible companies, their stock prices will also increase and non-socially responsible companies' stock prices will fall. In addition, from a free market perspective, it may be difficult for non-socially responsible companies to raise funds for their activities (Solomon, 2007); as Solomon (2007) states:

> ''…we may see Adam Smith's (1838) 'invisible hand' distributing more funds to socially responsible companies and diverting funds from companies that do not act in a socially responsible manner.''(p.276)

Moreover, the Association of British Insurers found that including socially responsible stock in a portfolio increases the returns and reduces the volatility because SRI investors look for long term investments (Bakshi, 2007).

Similarly, Kreander et al. (2002) examined whether or not ethical funds provided the same financial return as other types of fund. They also tested the ethical funds' timing abilities. This examination was made with regard to 40 different ethical investment companies throughout Europe. The results show that there is a major difference between ethical investment and traditional investment, and that the poor financial performance of ethical funds occurred due to poor market timing ability rather than poor stock selection. Bollen (2007) studied the money-inflow to SRI funds and compared it with that of non-SRI funds. He found that SRI funds have lower volatility in terms of money-flows than non-SRI funds in the US. Another study, conducted by Renneboog et al. (2005), shows that investors in SRI are like investors in non-SRI, in that they care about past performance and past returns. He also found that smaller, riskier SRIs have high money flow volatility, and that the money-flows and past performance are related to the types and strength of SRI screening activities. Thus, SRI can outperform other investments, as stated by Renneboog et al. (2008):

> ‘‘…first, sound social and environmental performance signals good managerial quality, which translates into favorable financial performance. Second, social and environmental screening reduces the possibility of incurring high costs during corporate social crises or environmental disasters, which financial markets tend to undervalue.’’ (p.1734)

As a result, financial institutions around the world, such as Citigroup and Goldman Sachs, are trying to develop their SRI investments and capacity (Bakshi, 2007) because in terms of financial performance there is not much difference (Capelle-Blancard and Monjon, 2012). Stock exchanges in several countries have started developing criteria for measuring the triple bottom line performance of companies, which focus on people, the planet, and profit. For example, the Johannesburg stock exchange has criteria for measuring the triple bottom line, and the Sao Paolo stock exchange in Brazil added a sustainability index to its stock exchange market in December 2005 (Bakshi, 2007).

Investment affects everyday life and that requires companies to be socially responsible. Being socially responsible means increasing businesses’ accountability to the community (Kamla, 2007). People in different communities have started paying attention to SRI investment (Bakshi, 2007). That means that some investors are currently not only targeting the maximisation of profit, but also seeking to be kind to the environment (Hallerbach, 2004). In other words, socially responsible investment can be considered part of a global change in business processes. The world is transforming from being concerned merely about financial prospects to being concerned about both financial and social prospects (Bakshi, 2007) and that will increase social justice.

3.7.7 Organisations Supporting SRI, Ethical and Environmental Investment

While SCIFs depend on SSBs to invest according to Sharia, SRI funds "rely on professional SRI organisations (sic.) for external advice" (Lewis, 2010, p.54). Professional SRI organisations play a role in pushing for SRI and ethical investment. Tables 3.3 and 3.4 highlight the most notable religious and non-religious key organisations in Europe that assist in ethical investment research and establish the criteria for SRI and ethical funds. From Table 3.3, it is evident that three church groups help to improve SRI and ethical investment, which reflects the history of ethical investment. These three groups are the Church Investor Group, the Christian Ethical Investment Group and the Ecumenical Committee for Corporate Responsibility[86]. The Church Investor Group was established in 1973 and its main purpose is to create a dialogue, with regards to the different opinions on ethical investment. The Christian Ethical Investment Group was established in 1988 and its main aim is to encourage the creation of new policies for ethical investment (Kreander, 2001; Kreander and McPhail, 2004). The Ecumenical Committee for Corporate Responsibility was established in 1989 and it works with the Christian Ethical Investment Group (CEIG) and Pension and investment research consultants (PRIC), to "initiate one of the first shareholder resolutions in the UK on an environmental issue at the Shell AGM in 1997" (Kreander, 2001, p.18). The UK Social Investment Forum was founded in 1991 and

[86] The three church groups are all UK based, as this only study was founded by researcher in this regard.

has several goals, including the sharing of information amongst various parties, providing education with regards to social and environmental issues, and the discussion of environmental issues. In Europe, several organisations have the same goals, in terms of ethical investment. Examples of such organisations are Corporate Social Responsibility Research (Ethibel), launched in Belgium in 1992, and The Association of Investors for Sustainable Development, founded in the Netherlands in 1995 (Kreander, 2001). In the case of Saudi Arabia, there are no similar organisations, governmental or non-governmental, that supporting socially responsible investment.

In 1983, the SRI screening service EIRIS was launched and the first UK ethical unit trust, Friends Provident Stewardship, supported by the Quakers, was established. EIRIS is considered one of the biggest influences on ethical investment in the UK and Europe (Bakshi, 2007; Sparkes, 2001; Kreander, 2001; Schwartz, 2003; Kreander and McPhail, 2004; De Anca, 2010). One of the main purposes of EIRIS is to help investors to make the right decisions regarding responsible investment (Mallin, 2007). This organisation provides general information for investors, particularly regarding ethical funds. EIRIS researches various companies from different sectors, in order to obtain extensive information about each firm. It is considered one of the most trustworthy organisations by ethical funds, and the majority of ethical funds in the UK use its services (Kerander, 2001). The organisation began to provide a unique service in 1999, employing software that contained information about a large number of UK companies (Kerander, 2001). Ethical funds set their own criteria but use the software, to decide on the most appropriate companies in which to invest to meet their objectives (Kerander, 2001). EIRIS has begun to expand and has partner companies across Europe, such as the Ethibel organisation in Belgium (Kerander, 2001). Rhodes (2009) argues, however, that EIRIS provides a lot of information with regards to a firm’s performance on ethical or social criteria, but fails to provide any measure of their impact and influence within the community. Organisations such as EIRIS work for SRI funds and help with screening.

Table 3.3
Religious Organisations

Organisation	Abbreviation	Country	Year
Church Investor Group	CIG	UK	1973
Christian Ethical Investment Group	CEIG	UK	1988
The Ecumenical Committee for Corporate Responsibility	ECCR	UK	1989

Source: Kreander, 2001: p.18.
Note: Table 3.3 presents church groups that support SRI and ethical investment.

Table 3.4
Non-Religious Organisations

Organisation	Abbreviation	Country	Year
Ethical Investment Research Service	EIRIS	UK	1983
UK Social Investment Forum	UKSIF	UK	1991
Ethibel (Corporate Social Responsibility Research)	ETHIBEL	Belgium	1992
The Association of Investors for Sustainable Development	VBDO	The Netherlands	1995

Source: Kreander, 2001: p.18.
Note: Table 3.4 presents some of non-religious that support SRI and ethical investment.

3.7.8 The Drivers of SRI

SRI has both internal and external drivers. Firstly, the internal drivers are the fund managers, clients of institutional investors, and trustees of pension funds (Solomon, 2007). External drivers include lobby groups, governments, society itself, companies and external investor bodies, such as in the UK the National Association of Pension Funds (NAPF), and the Association of British Insurers (ABI) (Solomon, 2007). The ABI, for example, provides several guidelines for companies' boards of directors regarding environmental and social issues before engaging in decision making. An important question is whether the external and internal drivers impact on the development of SRI equally, or whether one has a larger impact (Solomon, 2007). Fund managers are often not very interested in SRI and needed to have a greater awareness of the importance of SRI (Solomon, 2007; Capelle-Blancard and

Monjon, 2012). The importance of the survival of both people and the planet makes SRI very important to meet social justice objectives and look after the community but it is not just about aligning values with no returns. Both values and high returns are also important (Bakshi, 2007; Burritt, 2012). For example, the UN initiated its principles for responsible investment (PRI) that works for the betterment of society and hence aims to increase social justice. These principles are

> ‘‘(i) incorporate environmental, social and governance issues into investment analysis and decision-making processes; (ii) be active owners and incorporate ESG issues into our ownership policies and practices; (iii) seek appropriate disclosure on ESG issues by the entities in which we invest; (iv) promote acceptance and implementation of the Principles within the investment industry; (v) work together to enhance our effectiveness in implementing the Principles; and (vi) report on our activities and progress towards implementing the Principles.’’ (UNPRI, 2013)

The UNPRI believe that ‘‘environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios [and] applying these principles may better align investors with broader objectives of society’’ (Kingston, 2013) and hence increase social justice.

3.7.9 The Role of Investors and Government on SRI Funds

Investors have a role in persuading investee companies to change their practices too. Investors’ engagement with companies about environmental, social and governance issues is important, since they can use their rights as shareholders, either individually or collectively, and their influence to support the adoption of funds’ screening criteria (Higgs and Wildsmith, 2005; Sparkes and Cowton, 2004; Sullivan and Mackenzie, 2006). Renneboog et al. (2011) note that SRI investment depends, in the first place, on investors’ awareness of the importance of the social attributes of funds. Once investors’ awareness increases, the funds can develop positive and negative screening to satisfy a variety of investors (Renneboog et al. 2011). Thus, investors’ roles are important to SRI funds and improve social justice and welfare. In KSA, most investors are individuals not institutions which means that awareness is likely to be low (see chapter 2, section 2.5.6).

The increased awareness of SRI investment in developed countries has led institutional investors to have power and influence on investee companies to apply SRI criteria. This increasing awareness is becoming concentrated on how institutional investors, such as UNPRI, are taking into consideration ESG issues in their investment practices. There is a growing indication that these issues influence shareholder value in the longer term, and that they are being addressed progressively more by mainstream institutional investors rather than by small investors (Sparkes and Cowton, 2004). In addition, a variety of recent service industries focused on ESG issues in developed countries, including sustainability indices and benchmarks for companies' performance on ESG issues; for example, the Jones Sustainability Index and the FTSE4Good Index (Sørensen and Pfeifer, 2011). Furthermore, many projects have been built to maintain investor partnership regarding specific ESG issues. Examples include the ICGN (International Corporate Governance Network) and the regional and national Social Investment Forums; for example, EuroSIF, and the Carbon Disclosure Project (CDP), which ask companies to report and announce their carbon footprint. A major purpose of these networks is to promote dialogue between investors and the policy community on issues that affect both society and the environment. Thus, dialogue with all involved parties is important to improve social justice.

Governments should have a role as well as it is the biggest market of SCIFs (Ashraf, 2013; Bin Mahfouz, and Hassan, 2012). A number of countries have established legislation that obliges pension funds to "publicly state the degree to which they take into consideration social and environmental aspects in their investment decisions" (Louche, 2010, p. 219). ESG investment practices vary with broad choices of financial, political, social and regulatory factors that contribute to its development (Louche, 2010). In the majority of constituencies, there is a far broader understanding that a weak performance on ESG issues may lead to considerable financial, social and political costs. Also, non-governmental organisations (NGO) are participating in enlarging public awareness of ESG issues. Furthermore, the influence of the electronic media, mainly social media, is increasing public consciousness of ESG issues, even though, in "constituencies, regulation has been passed that requires companies to report on strategies and performance on ESG issues" (Sørensen and Pfeifer, 2011, p. 59). It is becoming expected that consumer favourites might be affected by reputational damage if ESG issues are insufficiently addressed. In addition, many institutional investors have to take client preferences regarding ESG issues into consideration (Sørensen and Pfeifer, 2011). Thus, it is important to have in place a governmental role that works to motivate investee companies to act ethically, as this will improve life in society.

In the same vein, investee companies should have a role in imposing social justice on society and not fear SRI screening criteria, as these will work for their benefit. An example of this is Corporate Social Responsibility (CSR)[87]. Also, CSR[88] arises as a result of pressure groups, such as fund managers; believing in the importance of social responsibility (Sparkes, 2001). Guay et al. (2004) explain how non-governmental organisations attempt to persuade firms to become more socially responsible by encouraging them to adopt CSR. Accordingly, CSR should be compatible with funds' positive and negative screening, since there is a lot of synergy between them.

[87] Besley and Ghatak (2006) explain that CSR maximises profit because the demand for ethical brands will increase as more people go green and only people who are willing to go green will buy these products, which will not conflict with those for whom this is not a concern. On the other hand, Barnea and Rubin (2006) suggest that company managers try to focus on CSR strategies for their own ends, as they can benefit from a reputation as good citizens and responsible managers.

[88] It is significant to differentiate between the two concepts, corporate sustainability and corporate social responsibility (CSR). Corporate sustainability refers to the survival and efficient working practices of a firm, whilst CSR refers to what is expected of a firm, in terms of society and the environment. However, these two concepts are related because CSR is important for corporate sustainability (Wheeler and Sillanpaa, 1997).

3.8 Conclusion

SRI funds and SCIFs have become more popular, attracting a lot of attention in both practice and in academia. In addition, there is increasing interest in the issues of sustainability and social responsibility. A rising number of fund managers are making investments while taking into consideration the societal consequences for the companies in which they invest (Hallerbach et al., 2004). There is some evidence in the finance literature that implies that investors consider SRI funds contribute to the environment and social justice issues (Renneboog et al., 2011). Nevertheless, most previous studies about SRI focus on financial performance (Capelle-Blancard and Monjon, 2012). Thus, research is required to consider these funds' social influence and participate in their development in order to promote social justice in society as the main point of ethical investment is "that investment decisions take into account both financial and non-financial considerations, with the focus on nonfinancial matters given to ethical, environmental, and moral concerns" (Ferruz et al., 2012, p.503).

SCIFs focus on moral values with regard to investment (Siddiqui, 2007) and SRI screening techniques play an important role in the industry (Renneboog et al., 2011). For SCIFs and SRI funds, the investment process depends on choosing companies that are not involved in particular industries, such as the alcohol industry, called negative screening (Siddiqui, 2007; Hassan and Lewis, 2007; Derigs and Marzban, 2009; Humphrey and Lee, 2011; Ballestero et al., 2012), but some SRI funds have more advanced screening criteria, such as investing in companies that provide excellent hiring practices, called positive screening (Humphrey and Lee, 2011; Ballestero et al., 2012). SCIFs may need to upgrade their screening criteria and begin to establish positive screening criteria, as these will assist environmental and societal improvement and fulfil social justice. An awareness of the importance of positive screening and creating criteria for promoting social justice will help to improve SCIFs management industry and this thesis attempts to contribute to knowledge in this area.

Most current research on SRI focuses on comparing the performance of SRI with conventional investment, such as that conducted by Humphrey and Lee (2011). According to Nainggolan et al. (2011), most studies about ethical investment focus on financial performance compared with conventional investment, despite the fact that ethical funds “stress equal emphasis on both financial and ethical returns” (Nainggolan et al., 2011, p.1). There appears to be no studies that try to link these funds to social justice especially to Islamic finance, and in particular SCIFs. As a result, screening in SCIFs does not consider social justice, despite that being a fundamental principle of Islam.

Finance models assume that investors have a single goal to maximise returns for an agreed level of risk. Accordingly, this serves to “achieve a mean-variant efficient portfolio”. This goal is achieved by holding a diversified portfolio of assets (Markowitz, 1952). SCIFs, and SRI funds have to some extent a limited investment opportunity set that may cause whole industries to be excluded from the funds’ portfolios. Consequently, a diversified portfolio with access to unconstrained investment choices, is impossible (Hallerbach et al., 2004; Hong and Kacperczyk, 2009; Statman and Glushkov, 2009; Humphrey and Lee, 2011). According to Sullivan and Mackenzie (2006), mainstream financial institutions in equities consider environmental and social issues as, at best, unrelated to their business (Sullivan and Mackenzie, 2006), but SCIFs are based on Islamic law, which focuses on moral and social values. Olson and Zoubi (2008), however, note that, in practice, Islamic institutions and conventional institutions operate within the same competitive environment and are regulated in the same way in most countries, which might mean that “it is possible that Islamic and conventional banks display similar financial characteristics” (Olson and Zoubi, 2008, p.46). According to Olson and Zoubi (2008): "in recent years Islamic banks have chosen to behave more like mainstream banks instead of strictly following Sharia principles" (p.47). Thus, Islamic finance may need to realign its goals in order to come into line with the concept of Islamic social justice and fulfil its social role in society.

Different issues may prevent SCIFs from having a positive influence on society. First, there are issues with regard to the SSBs that influence the ethical performance of SCIFs (Olson and Zoubi, 2008; Nainggolan et al., 2011). One of the problems results from the lack of supervision of the SSB members and the lack of a role for investors. Szczepanowicz (2011) explains that the main work of the SSBs in financial institutions is guaranteeing that all transactions are based on Islamic ethics and principles but sometimes the financial institutions "modifies conventional financing in such a way as to satisfy the Shariah scholars" (Hassan and Lewis, 2007, p.152) and maximise their own profit. Another issue is related to the fact that SCIFs in KSA need to have investee companies "with powerful environmental policies, honest practices and social guidelines inspired by moral institutions" (Ballestero et al., 2012, p.487). They need to be supported by the government and SSBs as SRI funds are supported in some developed countries. For example, to offer accurate information, an independent research organisation in the UK, EIRIS, issue a regular report about ethical funds (Ballestero et al., 2012, p.487). The government can do a lot through its regulations and the KSA regulatory bodies should support social justice in society. The government should provide the citizens with methods for achieving "the highest possible perfection according to their respective aptitude" (Fasih, 2012, p.98). Also, investors must play a critical role in Sharia compliant funds by applying Islamic investment criteria. For example, Jansson and Biel (2011) explain that SRI investors are more enthusiastic about increasing their investments than conventional ones, which will lead to an increased SRI market share. According to this, Jansson and Biel (2011) believe that

“The business case for SRI seems therefore to be the only reason for major investment institutions to adopt SRI” (p.1). These problems cannot be solved unless there is a lot of support and awareness about the importance of ethical investment and its influence in promoting social justice. SCIFs in KSA, for example, might need independent organisations that provide the fund managers with relative information about social justice; for example, which investee company has strong environmental and societal influences through its practices.

The importance of social justice in SCIFs is that it might support their suitability for the company and society as well (Nainggolan et al., 2011); as the Islamic religion emphasises social justice. Forte and Miglietta (2011) explain that the ethical principles that Islamic equity funds rely on depend on the religious teachings of Islam. Financial performance is not the critical target of the funds but the extent to which the fund complies with Sharia. According to Obaidullah (2005), values and being Sharia compliant are more important for investors than maximising profit. In the same vein, Lewis (2010) explains that “Islam [must] brings its own principles that promote equity, justice, social welfare and brotherhood, which should find reflection in investment activities” (p.55). Thus, considering the social justice fostered by SCIFs is important because it comprises Islamic ethics and moral values. This thesis therefore explores whether SCIFs have increased social justice in KSA society as the literature to date has not focused on the social justice[89] role of SCIFs. Thus, the remainder of this thesis seeks to answer the following research questions:

RQ1 Should SCIFs in Saudi Arabia have a social justice role?

RQ2 What are the perceptions of SCIFs’ stakeholders in relation to social justice and is social justice reflected in SCIFs prospectuses (T&Cs)?

[89] To the best of the researcher knowledge.

RQ3 What are the perceptions of SCIFs' stakeholders in relation to globalisation and has globalisation influenced the focus of SCIFs prospectuses (T&Cs)?

RQ4 Which factors (if any) hinder SCIFs from having a social justice role in Saudi Arabia?

The following chapter discusses the theoretical framework that has been adopted for this thesis.

Chapter 4

Theoretical Framework

4.1 Introduction

This chapter sets out to develop a theoretical framework for this study. The theoretical framework will build upon postcolonial theory which is a strand of critical theory. In general, the theoretical framework explains that colonialism and imperialism are key factors hindering social justice in developing countries. However, this influence continues as a result of the emergence of capitalism and globalisation in the world as a new form of colonialism.

The chapter is structured as follows. Initially generic critical theory is briefly outlined and its main arguments discussed. This provides context to understanding postcolonial theory, a development within the critical theory tradition that seeks to document and debate the various contemporary legacies of the interrelated philosophies and practices of imperialism and colonialism, as the latter evolved over several centuries to mid twentieth century. Attention then focuses on the emergence of globalisation, understood to be a key manifestation of neo-colonialism, and an ideology whose capitalist underpinnings result in it being significantly at odds with Islam in general and its social justice precepts in particular.

4.2 Critical Theory

4.2.1 Emergence of Critical Theory

Critical theory was established in Frankfurt when the Institute for Social Research was formed in 1923 (Held, 1980) between World War I and World War II; the philosophies of Kant, Hegel, and Marx formed the bases for critical theory and the Frankfurt critical school (Hoy and McCarthy, 1994) but it changed markedly under Max Horkheimer's leadership in the 1930s. The school members became known as the Frankfurt School of critical theorists (Held, 1980) including Max Horkherimer, Theodor Adorno, and Harbert Marcuse in the first generation. Jurgen Habermas is considered the most well-known theorist from the second generation, and from the third generation are Axel Honneth and Seyla Benhabib (Gallhofer and Haslam, 2003). Roslender (2006) argues that critical theory started to develop from 1923 because of Horkheimer and also because of other scholars, whose contribution enriched critical theory. The term critical theory, however, was first formulated in 1937, after most of the Frankfurt School emigrated to the United States (Bronner and Kellner, 1989). The main feature of the theory is that research must play a significant role in changing the world for the betterment of mankind, and an increase of interest in social justice. It does not matter if the research is on education, art, philosophy, literature, or business but it has to have as its main goal a rejection of the positivist understanding of research or, in other words, a rejection of rationalism (Burrell and Morgan, 1979). Critical theory in a sense is a neo-Marxist theory which challenges the prevailing economic rationalism by clarifying its negative side to individuals and society (James, 2008); Marxist theory originally only focused on capitalism's effect on society (Roslender, 2006). Also, critical theorists do not accept generalisations; in other words, small details are important in getting successful results (Burrell and Morgan, 1979) to have the betterment of society.

The generation that came after Marx, such as Lukacs and Horkheimer, focused on developing the theory by concentrating on social factors rather than just focusing on economic factors, and the theory became concerned with change and promoting a better society (Roslender, 2006). Burrell and Morgan (1979) notice that the contribution of the foundational generation of the Frankfurt School "moved increasingly towards philosophy and intellectual criticism rather than revolutionary practice" (p.91). In other words, the Frankfurt School members were theoreticians instead of activists and, in the mid-1970s:

> "There was significant interest in developing what might be referred to in generic terms as a critical sociology, closely associated with Marxist theory and the related Critical Theory tradition of the Frankfurt School, which itself is distinguished by its multidisciplinary, metatheoretical perspective on society." (Roslender and Dillard, 2003, p. 329)

Accordingly, critical theory kept developing and the influence of a sociological perspective "embraced elements of history, philosophy, and politics, and had a place for psychology, and more besides including economics, systems thinking, linguistics, etc" (Roslender and Dillard, 2003, p. 329).

4.2.2 Main Arguments under Critical Theory

Critical theorists are interested in emancipatory education, as this will help people to learn about other people's experiences and hence understand the obstacles that prevent social justice. Emancipatory education refers to the negative barriers in society that blind people to the social practices that can improve the lives of citizens through spreading social justice (Allan, Briskman, and Pease, 2009). Over the last few years, critical theories have explained the source of oppression in society to enable people to understand that oppression can be removed (Allan et al., 2009). Indeed, Alvesson and Willmott (1996) state that: "The intent of critical theory is to challenge the legitimacy and counter the development of oppressive institutions and practices" (p.13). Critical theory plays a valuable role in clarifying thinking about how institutions affect society. It emphasises that institutions play a substantial role in society, such as educational institutions and the government, and, as a consequence, social justice. It challenges injustice and believes in democracy and social accountability (Allan et al., 2009).

According to James (2008), the critical theory perspective is a socialist one, since most critical theorists support "the ideal of a future socialist utopia" (p.645). Kincheloe and McLaren (1997) explain that critical theory focuses on the pursuit of social justice and facilitates social change. Critical theory is mainly concerned with "the empowerment of individuals" and it "must be connected to an attempt to confront injustice of a particular society" (Kinchloe and McLaren, 2011, p.305).

However, social justice is a wide expression that includes different concepts that can be different from one person to another one. Thus, there is no one specific definition for social justice but it is important because it touches people's lives and depends on the way of looking at a problem and trying to achieve the requirements for the change that guarantee fairness and equality to all people in a particular society. From this understanding stems the importance of critical theory in examining social justice (Miller, 1999).

4.2.3 Postmodernism Theory

Postmodernism[90] is considered to be one of the critical theories (Lodh and Gaffikin, 1997) and it refers to the period that came after the modernist period when life or society became more complex and interconnected (James, 2008). Kincheloe and McLaren (1997, p. 52) comment that:

> "…in recent years critical theory's interaction with poststructuralist, postmodernist, cultural studies, neo-Marxist, and feminist discourses has moved traditional critical theory onto a new cultural terrain. The conversation between critical theory and these compelling traditions illustrates critical theory's elastic cause, or its self-critical evolutionary orientation".

Postmodernism is defined in its broadest sense to involve "a critique of all totalising theories- that is, theories set out to explain everything" (Pease and Fook, 1999, p.11). The distinctive feature of postmodernism is that it holds that meanings are socially constructed (James, 2008). It examines the world from different multiple perspectives of "class, race,

[90] The importance of this theory to this study will be discussed at the end of this section.

gender, and other identifying group affiliations" (Agger, 1991, p.116). Accordingly, postmodernism theory is "a theory of society, culture, and history" (Agger, 1991, p.112).

The main criticism of postmodernism is that, "to foster social change, especially based around archaic groupings such as classes, is presumptuous" (James, 2008, p.4) but is interconnected with critical theory in rejecting economic rationalism. In addition, critical theory and postmodernism share the same belief in the subjectivity of knowledge and both consider that this involves or places the researcher at the centre of experience (James, 2008).

Critical theorists (including postmodernists) explain that critical theory has some distinctive elements that are different from other theories. They do not merely seek to provide the goal of change but also seek human emancipation in times of oppression through making clear negative barriers in society, but this task cannot be done without the interaction between philosophy and social science through interdisciplinary empirical social research (Horkheimer, 1993). Also, critical theory provides three dimensions for researching a particular topic: (i) explanatory; (ii) practical; and (iii) normative. Critical theorists try to explain current social issues and recognise the real aspects of an issue in order to be able to modify it to accomplish practical goals for social transformation (Horkheimer, 1993). Critical theory identified the negative barriers of social justice (Allan et al., 2009) and postmodernism critical theory emphasise on culture and history (Agger, 1991), thus critical and postmodernism for the basis of postcolonial theory[91] which is the main theory to conduct this study.

[91] Postcolonial theory will be discussed in section 4.3. Postcolonial theory cares about identifying the barriers of social justice in former colonised countries by analysing the coloniser historical and cultural influence in these countries.

4.2.4 Critical Theory and Finance and Accounting

In the last twenty years, critical theory has become more influential in informing researchers in the finance and accounting field (Roslender, 2006) as Marxism and Frankfurt critical theory drew attention to social accounting and its importance to social justice in the community (Gallhofer and Haslam, 1997). The University of Sheffield began using critical accounting in the mid-1970s, where a group of scholars at the university, such as Tony Lowe and Tony Tinker, began to develop a sociology, philosophy, and politics of accounting (Roslender, 2006). Roslender (2006) explains that scholars like Laughlin note that critical theory is suitable for finance and accounting research in the organisational context, because critical theory provides the technical and social aspects of finance and accounting (Roslender, 2006). The importance of critical theory emanates from its focus on increasing the self-awareness of social issues between the communities engaged in finance and accounting practices (Roslender, 2006). For example, Bakerand and Bettner (1997) explain that accounting provides both an economic and social output, as they state:

> "Critical researchers have convincingly and repeatedly argued that accounting does not produce an objective representation of economic 'reality', but rather provides a highly contested and partisan representation of the economic and social world. As such, the underlying substance of accounting cannot be obtained through an ever more sophisticated elaboration of quantitative methods. Accounting's essence can be best captured through an understanding of its impact on individuals, organisations and societies. Hence, it is important for accounting research to adopt a critical perspective" (p.305).

Gallhofer and Haslam (2003) argue that "accounting has been theorised critically, interpretively, and contextually as a social practice" (p.6). Because finance and accounting affects its stakeholders, it affects people's attitudes, ways of thinking, and behaviour. Having responsible finance and accounting will help to enhance solving the problematic social order. On the other side, ignoring social problems in the past was a consequence of several factors, such as state regulation and the educational system, which focused on helping businesses to make a profit. Studying finance and accounting through a critical vision by focusing on social analysis, and understanding finance and accounting as a social practice has led some critical researchers to view it as an emancipatory practice. According to Gallhofer and Haslam (2003), the emancipatory vision of accounting means:

> "A vision of accounting as an emancipatory force is consistent with seeing accounting as a communicative social practice that functions as a system of informing that renders transparent and enlightens with the effect of social betterment. It is a vision in which a progressive community comes to control accounting rather than be controlled by it, a reflection of a proper accountability" (p.7).

This emancipatory element to which Gallhofer and Haslam (2003) draw attention has different elements, such as the mobilisation of information systems which can be used as a pressure on governments and other influential parties, such as the finance and accounting profession to increase awareness of social justice. These parties must be encouraged to act to benefit society and use elements focused on education and research to increase public awareness of the importance of emancipation from negative barriers that blind societies (Gallhofer and Haslam, 2003).

In general, critical research is opposed to the capitalist system and assumes that accounting is constructed around the privileged in the social order. As Gray et al. (1996) explain:

> "…the very way in which society is ordered, the distribution of wealth, the power of corporations, the language of economics and business and so on, are so fundamentally flawed that nothing less than radical structural change has any hope of emancipating human and non-human life. The social, economic and political systems are seen as being fundamentally inimical" (p.63).

As this study focuses on social justice by SCIFs, one appropriate theory to use to conduct this is postcolonial theory as it considers social justice. Further, critical theory and postmodernism theory have a direct role in formulating postcolonial theory which focuses on social justice and not just economic factors only. In postcolonial theory the focal point is the current deficiency in social justice in developing countries as a consequence of the negative influence of former colonisers[92] which continues after the end of the colonialism period (Gandhi, 1998).

In the same line postcolonial theory drew attention away from Marx which had ignored the world outside Europe to the political needs of colonised nations elsewhere (Gandhi, 1998). The following section explains in more detail the emergence of postcolonial theory, and how postcolonialism influences finance and accounting research.

4.3 Postcolonial Theory

The postcolonial literature emerged in the late 1970s to explain the period that started from the beginning of imperial power and control over the colonies (Ashcroft et al., 1995). In the period that preceded the 1970s there was plenty of work related to this field, except that it was not an institutionalised field of academic specialisation. The term postcolonial was considered a theoretical weapon or a fighting term in the discussion of the resistance of the political and philosophic practices of imperialistic powers (Lazarus, 2004). Postcolonial theory understands the reasons underlying a current situation through its historical content, which makes the explanation of an issue easier. As Calhoun and Karaganis (2006) mention:

> "The first generation of Frankfurt School critical theorists always insisted on the historical embeddedness of theory. They recurrently criticized those who presented theory as though it could adopt a position outside of history, and those who imagined that theory would somehow explain social change without itself being transformed by it" (p.181).

Said (1993) states that even though today no countries are colonised by a military power, there is another type of colonisation, through pushing third world nations to do what the former colonial powers want through international policies and practices. Accordingly, it is important to understand how the former colonisers still influence the former colonised

[92] There are two types of colonialism: (i) mind colonialism and (ii) military colonialism. Saudi Arabia was influenced by the first type. This will be discussed more in section 4.2.

nations. These colonisers have an imperialistic culture which becomes part of colonisers' characteristics and culture which are then practiced unconsciously (Said, 1993).

The terms colonialism and imperialism are sometimes used interchangeably. Colonised countries were not just colonised militarily but the people were also made to be subservient to the coloniser's ways of thinking and culture. However, not all local people accepted the oppression and exploitation of their resources, so there was often resistance (McNicholas et al., 2004). Ashcroft, Griffiths and Tiffin (1995) explain that this resistance:

> "…drew upon the many different indigenous local and hybrid processes of self-determination to defy, erode and sometimes supplant the prodigious power of imperial cultural knowledge" (p.1).

Edward Said's work "Orientalism" in 1978 was the foundation for postcolonial theory (Gandhi, 1998), and Gandhi (1998) considers this as the first time that the term postcolonial studies was coined. Gandhi's (1998) work, "Postcolonial Theory: a Critical Introduction", was based on "Orientalism" as well as other works, and includes, about postcolonial theory or, more specifically, she chooses a context for explaining the theory (Gandhi, 1998).

Said (1993) produced several important ideas regarding the coloniser's cultural influence. First of all he differentiated between imperialism and colonialism, where imperialism refers to the "practice, the theory, and the attitudes of a dominating metropolitan centre ruling a distant territory" (p.8) as opposed to colonialism which is "the implanting of settlements on distant territory" (p.8). In addition, Said argued that: "imperialism is simply the process of maintaining an empire" (p.8). Colonial powers left their Western influence on different aspects of these colonised countries in terms of culture, history, and politics as well as in literature, the arts, the media and social life and, as Bush and Maltby (2004) explain: "to be successful imperial hegemony had to come to terms with, incorporate and transform the values of the colonized" (sic.) (p.8). Another idea, critically discusses the political and cultural discourse, in the news and media and its effect in pushing the coloniser agenda (Said, 1993; Mosco, 2008). For example, the United States of America spreads its views through international popular channels such as CNN which (arguably) works as an advertiser for US foreign policy (Said, 1993). Thus, colonialism has not stopped, even after the end of the coloniser's era. As a result of the continuation of this control through international polices and the globalisation of products, some subjugated people see this as continued oppression in the world (Said, 1998). Said (1993) emphasises the need to examine the bigger picture of a subject and not to subdivide or categorise it because categorising a study prevents one from identifying the root of a particular culture, for example, Middle Eastern studies. In addition, the failure to obtain a good understanding of any culture can weaken the understanding of cross-cultural issues and politics of that country. Understanding the factors that inform any society will provide a researcher with a better understanding of the colonised country's context and this is important currently in an interconnected world.

The term 'postcolonial' not only refers to the period after military imperialism or after colonialism has left the colonised country. It also cares about the colonialism period, since it begins the direct consequence. Further, it relates to the neo-colonial period so that even countries that have been free of military or physical colonisation face colonialism because of reasons such as the advance knowledge of the technological revolution, as influenced by neo-imperialism. The neo-colonial period spreading throughout the world is known as Globalisation (Gandhi, 1998). Postcolonial theory concentrates on revisiting and remembering the colonial past as a way to diagnose the problems that developing countries currently suffer from as a result of neo-colonialism (Gandhi, 1998) and globalisation.

Gandhi (1998) maps postcolonial theory from two anti-colonial writers, Frantz Fanon and Mahatma Gandhi, and enlightens this perspective by revealing: “the ethical inadequacy and undesirability” that the colonisers practiced over colonised nations (Gandhi, 1998, p.20). However, it is important to note that colonialism has not ended but today it has been transformed. Gandhi (1998) states that writers such as Albert Memmi and Edward Said “insist that the colonial aftermath does not yield the end of colonialism” (p.7). Western colonial power continues through the imperial legacy that influences cultural identity, so that developing nations feel that they need Western nations to help them (Gandhi, 1998). At the same time developing countries identities will disappear because colonisers make their conquests similar to themselves in different aspects of life (Said, 1993). In other words, colonialism causes “reformation of the natives’ minds (particularly in terms of knowledge systems and culture)” (Banerjee et al., 2009, p.8). Developing countries need liberty in order to find themselves (Said, 1993) and to find their true identity by returning to their original culture. However, this will not obliterate the effects of colonialism on the local culture. Gandhi (1998) refers to Ashis Nandy’s idea about colonialism:

> “This colonialism colonizes minds in addition to bodies and it releases forces within the colonized societies to alter their cultural priorities once for all. In the process, it helps generalize the concept of the modern West from a geographical and temporal entity to a psychological category. The West is now everywhere, within the West and outside; in structures and in minds.(sic.)” (Nandy, 1983, p.xi)

Western powers tried, through colonisation, to wipe out the cultural values of their colonised countries not just by hegemony over the land, but also by destroying national values in order to impose Western ones to serve their interests. This demonstrates the two types of colonialism: first the physical occupation of the land of a particular nation, which is transparent and clear; and second the occupation of the mind and culture of that colonised nation under the pretext that the colonised nation is uncivilised, and today this is called neo-imperialism because it is expanding through capitalism and globalisation (Gandhi, 1998). As this study is about SCIFs in Saudi Arabia, it is important to note that

Saudi Arabia has never been physically colonised, but is influenced by mind colonialism which might affect the role of social justice by SCIFs. The influence of mind colonialism on Saudi Arabia will be discussed further in section 4.5.

4.3.1 Colonialism's Aftermath: Postcolonial Theory

The colonised nations resisted Western powers and after World War II succeeded in gaining their independence (Gandhi, 1998). In order to overcome the damage caused by the coloniser, nationalist movements arose in different nations such as India and Algeria by refusing any Western influences and increasing the search for a cultural identity (Gandhi, 1998). For colonised nations, nationalism was perceived as a cure to the years of oppression by the coloniser, where locals were treated as second class citizens and suffered from separation and discrimination (Gandhi, 1998) and, today most of the developing countries blame imperialism for poverty, illiteracy, and general unsettled conditions (Davis and Huttenback, 1986).

After gaining independence, a new type of relationship with the modern world was sought but the countries which had become free from military colonisation after years of resistance found themselves not yet free from colonisation (Gandhi, 1998) as developed countries still dominated knowledge, which is a key to developing countries' progress. Most of the developing countries found that they still needed the previous colonisers, with their international institutions (Said, 1993).

In the same vein, the huge development of knowledge and world communication systems after World War II shrank distances. The invention of radio, television, the Internet, satellite and digital technologies, made communication between nations easier, flexible, and on time (Held and McGrew, 2003). Said (1998) highlights how imperialism spread through technology where “information hegemony” became an opportunity for today’s colonisers because they have both the knowledge and financial resources to spread their views of international situations in the media. Communication technology is increasing over time and plays an important role in modifying diverse cultural outputs and values (Held and McGrew, 2003). Further, Western advanced knowledge in finance and accounting gives colonisers an advantage to control the world financially as they control the world’s international institutions. The following section discusses the influences of postcolonialism in finance and accounting in developing countries.

4.3.2 Postcolonialism and Finance and Accounting

The influence of a coloniser might be extended, even after independence, by its influence over the economy. Pollard and Samers (2007) note that “postcolonialism has made relatively little headway in economics” (p.323), however, “the immense power of economic discourses in shaping debates and public policy concerning poverty and wealth is problematic because of the discipline of economics” (Pollard and Samers, 2007, p.323). The following are some examples of the influence of imperialistic power on developing nations to follow their Western financial strategies through finance and accounting.

A coloniser can control a territory in two ways. First, through “hardwares” which refers to the heavy weapons that are used in expansion, such as in imperialistic times via steam gunboats and breech-loading guns. Second, is the “softwares” which refers to knowledge that facilitates force. Knowledge such as of medicine, geography and finance and accounting are considered the most important that have been used by previous colonisers (Neu, 2000). Said (1993) refers to the importance of knowledge to facilitate colonisation when he said that knowledge:

> "...is what makes their management easy and profitable; knowledge gives power, more power requires more knowledge, and so on in an increasingly profitable dialectic of information and control" (p.36).

One example of the use of finance and accounting by an imperialistic power is a study by Bowrin (2007) who explains that a previous coloniser influenced Trinidad and Tobago's legislative framework and the pronouncements of its professional accountancy body. The practices of the British coloniser, prior to independence, affected Trinidad and Tobago's current public finance and accounting as British finance and accounting experts were sent to corporations in Trinidad and Tobago for financial reporting and auditing. Also, the British government as coloniser prepared an accountancy training program for Trinidad and Tobago's nationals in the UK to prepare them for independence. These two practices by the British government affected Trinidad and Tobago's finance and accounting profession after independence because it became hard to change the finance and accounting system. Dyball et al. (2007) mention that the same thing is noted in other British colonies like Australia, Canada, India, Malaysia and South Africa. However, Davie (2000) argues that one other factor that serves this strategy is the collaboration of the indigenous people which was essential for the British Empire to impose its policy.

The form of local professional bodies in colonised countries started as branches of British associations and was a strategy to impose the coloniser's finance and accounting standards. Davie (2000) describes the British finance and accounting profession as an "imperial body" serving an "imperial interest". Dyball et al. (2007) explain that:

> "Imperial accounting associations played a significant role in establishing local associations or determining the training and certification structures there, even after independence" (p.418).

Neu (2000) explains that finance and accounting is part of the colonisation process "enmeshed within colonial systems of government" (p.163). Davie (2005) examines how finance and accounting was used by imperial powers to inculcate "forms of oppression and injustice into everyday work practice" (p.55). Accounting and financial techniques were implemented by colonisers which increased the level of "unjust, inhumane, oppressive and racist policies" (p.56). Also, Davie (2000) discusses that finance and accounting had a role in imperial expansion which are "mutually constitutive" for empire building. The way that finance and accounting serves imperialistic power is explained by Davie (2005):

> "Accounting measures of performance facilitated British imperial strategies of hierarchization and marginalization of its subjected population. Accounting provided a very practical way of measuring, monitoring and expressing in economic-monetary terms the institutional consequences of indirect rule. In addition, accounting provided calculations to compare and contrast the achievements and possibilities of alternative policy decisions. With an institutional structure in place, innovations through accounting provided a new way of controlling and coordinating the subjected population within imperial systems of government (sic.)" (p.77).

In the case of Arab countries, most of them were colonised (Cooper and Yue, 2008), so the impact in finance and accounting is similar to the impact in the above mentioned countries. Kamla (2007) explains that, after the independence of Arab countries, Arab countries developed finance and accounting legislation that was based on British or French law. Egypt, a former British colonial, whose public finance and accounting was affected by the British (Kamla, 2007) which was used for imperial purposes and interests (Davie, 2000). Thus, finance and accounting was a tool used by imperialistic powers to control their weak colonised nations. To control the land resource, the colonisers needed to do something to facilitate the exploited indigenous residents. As Said (1993) clarifies "imperialism means thinking about, settling on, controlling land that you do not possess, that is distant, that is lived on and owned by others" (p.5). Finance and accounting was, and still is, used by imperialistic powers as a tool to "control, contain and civilize (sic.)" developing nations (Neu, 2000, p.182). Saudi Arabia is influenced mainly by the United States as a result of the strong economic relationship (see Vitalis, 2007; Fox, Mourtada, and Al-Mutawa, 2006). This influence can be noted, in terms of Islamic finance, in the fact that Saudi Arabia has established an interest in the Islamic finance industry only belatedly[93]; the first Saudi Arabia Islamic investment funds were established in 1986 (see Alnafaesa, 2010), but the conventional financial system was established and has existed in Saudi Arabia since 1952 (see SAMA, 2013) and the first conventional investment funds were established in 1979 (see Alnafaesa, 2010). Thus, Saudi Arabia is influenced by the Western financial system as a result of mind colonialism, in terms of investment, and that might affect the Islamic investment funds' social justice focus. The following section discusses globalisation as neo- colonialism style that used mind colonialism.

4.4 Emergence of Globalisation

It can further be argued that globalisation and capitalism are also two sides of the same coin because globalisation supports a liberal capitalist economy and capitalism passed through several stages until it became a global phenomenon. Dunning (2005) notes that "Capitalism and imperialism became twins, each providing support and strength to the other" (p.183). These stages started with merchant capitalism and passed through industrial capitalism, financial capitalism, welfare capitalism and state capitalism, ending with global capitalism (Dunning, 2005). Banerjee et al. (2009) note that "globalization have their roots in colonial histories (sic.)" (p.8). International institutions, such as the International Monetary Fund, World Bank, and World Trade Organisation organize the global economy according to the view of the Group of 7 (G7)[94] which has become the G20 today (Banerjee et all., 2009; Cox, 2012; Bradford and Linn, 2012). These organisations work in favour of Anglo-American objectives, and impose their narrow capitalistic goals. Through these international institutions, the G7 put pressure on developing countries to accept the products of multinational corporations (Held and McGrew, 2002), which are the corner

[93] The first Islamic bank was established in Malaysia in the 1940s (Zaher and Hassan, 2001).

[94] The group of 7 was formed in 1976 and it includes Canada, France, Germany, Italy, Japan, United Kingdom, and United States. Today it is the group of 20 (Cox, 2012), which its roots emerge from the G8 (Colin and Johannes, 2012). It aims to face the issues and challenges facing the global economically and politically (Colin and Johannes, 2012).

stone of a capitalistic system (Zalloum, 2009) working in the interest of the Western dominant power. This power is only informal because these "rules" cannot be enforced by direct command but only through non-governmental power (Held and McGrew, 2002). Held and McGrew (2002) explain that globalisation imposed by the G7 constitutes capitalistic imperialism and colonialism:

> "International governance, in key respects, is the contemporary equivalent of old-style imperialism in so far as it represents a distinctive political mechanism which entrenches a system of global domination of the weak by the strong" (p.73).

Thus the influence of the US and west over the developing world enables them to control the resources and spread their control through capitalism (Held and McGrew, 2002). Generally, the West today controls former colonised countries through dominating the economy of these territories using the rules and principles generated by international organisations (Held and McGrew, 2002).Thus, inequality continues. On the other hand, capitalism contains aspects that have a great deal in common with the cultural and historical context, as Dunning, (2005) explains:

> "imperial powers of the West, and its present association with the only world superpower, make its incursions into the non-Western world suspicious and destabilizing" (p.199).

Western colonialism has left its impact on the former colonised and developing countries which were not under military colonialism, by forcing them to follow a Western culture. This has led to the creation and construction of discourses[95] about the West. The effect of the coloniser was not simply limited to unfair and unjust treatment, but also imposed Western ideas that must be emulated in all aspects of development because it is the best. For example, developing countries see that the "Western technological advance is not only desirable but superior" (Gallhofer, Haslam, and Kamla, 2011, p.44). Gallhofer et al.,

[95] Gallhofer et al. (2011) explain: "Such discourses, with colonialism's injustices experienced by Arabs and Muslims, have created ambivalent views about Europeans in the Arab world: Europe is advanced and should be emulated in technological, scientific and philosophical spheres, but lacks the soul and spirituality of the East and Islam." (p.392)

(2011), for example, investigate Syrian accountants' impressions of globalisation and its impact on accounting, and state that it is imperialistic but, at the same time, is a positive change because it brings opportunities if these are seen as a "pragmatic, materialist necessity rather than of a deeper potential benefit" (Gallhofer et al., 2011, p.43). Thus, small countries, like Syria, embrace international conditions and regulations in order to use them as a tool for achieving better political and economic conditions even if it is at the expense of society and social justice (Gallhofer et al., 2011). Many colonies have transformed and accept the positive and negative influences of this in order to improve their nation's life and not live alone in the world. However, some countries feel threatened from these new communication processes and technologies because of its unstable implication over their country's citizens[96]. Nevertheless, communication and cultural flows are transforming the national identity in all world nations (Held and McGrew, 2003). As a result, globalisation plays a major role in financial sector reforms in developing countries such as Saudi Arabia. The next section will discuss globalisation in detail to understand its influence on developing countries.

4.4.1 Globalisation

The reason for proceeding to discuss globalisation is that it reflects the neo-colonialist style used by Western powers (Said 1993) to control developing countries. The influence on developing countries is based on the best imposing its own cultural, financial and investment systems that are mainly based on capitalism (Dunning, 2005) that are not in line with Islamic social justice concepts. Globalisation has been ongoing for a long time but it has increased due to the development of technology (Zalloum, 2009) facilitating fast communication systems between nations and attracted evolution in the infrastructure of countries, such as transport, banking systems, trade rules, and language with English as a

[96] For example, Google had to comply with Chinese Government condition to censor searches from its servers inside China (O'Rourke et al., 2007).

lingua franca for world nations (Held and McGrew, 2003). Globalisation does not mean that the global takes precedence over the local, but that the local becomes embedded in international relations and networks of power. Globalisation shrinks the distance and increases the speed of social interaction in the world; for example, September 11 2001 had an immediate worldwide impact. Held and McGrew (2003) explain:

> "Globalisation thereby engenders a cognitive shift expressed both in a growing public awareness of the ways in which distant events can affect local fortunes (and vice versa) as well as in public perceptions of shrinking time and geographical spaces" (p.4).

There is no specific definition of globalisation, but it has several features that can be identified in the political, economic, and cultural factors of colonies. For example, Held and McGrew (2000, p.38) state that:

> "…globalism, in its various forms, does illuminate important transformation…in the spatial organisation of power – the changing nature of communication, the diffusion and speed-up technical change, the spread of capitalist economic development…challenges raised by the debate are profound and merit the most serious consideration…at stake are questions about the ethical and institutional principles which might or should inform the proper organisation or human affairs and the future form of world order".

Gikandi (2001) notes that globalisation and postcolonialism intersect and explains that:

> "Globalization and postcolonialism might have differing interpretations of the exact meaning of these categories, or their long term effect on the institutions of knowledge production in the modern world, they have at least two important things in common: they are concerned with explaining forms of social and cultural organisation whose ambition is to transcend the boundaries of the nation-state, and they seek to provide new vistas for understanding cultural flows that can no longer be explained by a homogenous Eurocentric narrative of development and social change (sic.)."(p.629)

Globalisation is characterised by: (i) exporting the social, political, and economic operations of companies across continents and countries; (ii) strengthening the connection and relations of the flow of trade, investment, finance, and culture; (iii) increasing interconnectedness and speeding up the spread of ideas, goods, information, capital, and people; and (iv) dissolving boundaries whereby local matters become global affairs (Held and McGrew, 2003). Globalisation widens, intensifies, and speeds up the growing impact of world-wide interconnectedness (Held and McGrew, 2003). Three dimensions of the new global economy are: (i) trade; (ii) production; and (iii) finance (Held and McGrew, 2003).

The increase in international trade has been rapid and it has now reached an unprecedented level. Export levels today are now much greater for Organisation for Economic Co-operation and Development (OECD)[97] countries due to falling trade barriers across the world. Also, the creation of economic blocs in Europe and North America increases their share of manufacturing, especially of complex technological products and developing countries have to buy advanced technology from these developed countries (Held and McGrew, 2003).

Multinational corporations play a vital role in globalisation. In 1997, the number of multinational companies reached 53,000, with 450,000 foreign subsidiaries which started to connect with smaller national firms to make a transnational production chain. Further, developed countries need foreign investment to support their economies so manufacturing operations are moved to the third world to produce to consumer products for developed countries because manufacturing costs are cheap, while the citizens of developing countries suffer from poverty (Held and McGrew, 2003), for example, Nike's exploitation of child labour[98] (Boje and Khan, 2009).

Finance is also an important tool for promoting globalisation, by making trade easy between the world's nations. The world's financial flows have increased rapidly since the

[97] It is a form of 33 countries that founded in 1961 to bring together the governments of countries committed to democracy and the market economy from around the world (http://www.oecd.org).
[98] Boje and Khan (2009) studied "postcolonial subaltern perspective a particular case of a CSR initiative in the Third World undertaken by Nike as part of its branding efforts" (p.22).

1970's. The volume of traded assets through capital and derivatives markets has reached a record high and facilitated investment in foreign markets for investors. However, the markets suffer from speculation, increasing the risks, such as the 1998 crisis over hedge fund Long Term Capital Management (Held and McGrew, 2003). Dwyer and Roberts (2004) argue that American multinational companies' illusion that the access of such corporations will improve developing countries' economic growth and help them to access global markets and technology, and as a result living standards will improve, but that has not happened. For example, these multinational companies take advantage of "minimalist protection legislation" in developing countries as recorded in such countries as Mexico, India, Indonesia, China and Vitenam (Dyer, 2009, p.168). The next section discusses further insights into how globalisation has been employed to serve neo-colonialism and how this can influence developing countries such as Saudi Arabia.

4.4.2 Neo-Colonialism

Neo-colonialism is spreading today by what is called universalism, where Western views are spreading into all aspects of life, including finance and accounting (Gandhi, 1998). Banerjee et al. (2009) note that:

> "Neocolonialism can be understood as a continuation of direct Western colonialism without the traditional mechanism of expanding frontiers and territorial control, but with elements of political, economic and cultural control." (p.8)

World neo-colonialism began after the Second World War when the US demanded a price for helping its European allies during the war, giving the US hegemony over the world economy by giving it access to raw material (Kamla, 2005). The USA determined to use economic power to defeat communism, so capitalism was promoted to be used by developing countries as "the system capable of eradicating poverty, improving economic conditions, and protecting individual freedom and private property" (Banerjee et al, 2009, p.149). Accordingly, the victorious nations in the Second World War set up international institutes to manage the resources of the world. These international institutes follow US principles and guarantee economic control for the US such as: (1) the International Monetary Fund (IMF) after Bretton Woods in 1944; (2) the World Bank in 1944; and (3) the General Agreement on Tariffs and Trade (GATT) in 1947, which was replaced by the World Trade Organisation (WTO) in 1995. If these organisations failed to convince a country to follow their conditions in world trade, the military power is used and, US military troops step in, such as in Vietnam, Korea, Greece, Lebanon, the Dominican Republic and Grenada (Kamla, 2005).

Currently, physical colonialism has ended but, with international organisations regulating the world according to Western values, it can said that the colonising powers keep their influence. The former colonised countries are still not free from colonialism power as it continues under a different name, that of “globalisation” (Said, 1993). Globalisation also known as the Anglo-American political economy is a tool for economic, political and cultural change. Globalisation, for many, depends on, or is built according to, narrow capitalistic values for global hegemony over weak or underdeveloped nations (Gallhofer et al, 2011).

The neo-colonialism powers now control colonised countries from outside rather than inside. From a certain point, the former coloniser changes the present, physical colonialism and depends on “invisible government” to help and develop independent nations (Ferro, 1997). Ferro (1997) notes that Nkurmah wrote in 1965:

> “The essence of neo-colonialism consist of the fact that a state which is in theory independent and endowed with all the attributes of sovereignty actually has its polices directed from outside” (Ferro, 1997, p.342).

Thus, neo-colonialism is a continuance of colonialism that impedes social justice in developing countries. As globalisation, for many, depends on, or is built according to, narrow capitalistic values (Gallhofer et al, 2011), it might affect the lack of a social justice role of SCIFs in Saudi Arabia that makes them focus on profit maximisation at the expense of social justice aspects that stem from Islamic teachings. Thus, the empirical works in this study examine this Western influence resulting from globalisation. The following section discusses how globalisation influences the practices of finance and accounting in developing countries and plays a colonialism role.

4.4.3 Globalisation and Finance and Accounting

There is an interaction between globalisation and finance and accounting and Poullaos (2004) describes that globalisation and accounting "…provides more grist for the critical accounting mill, another topic for teaching, learning and research."(p.726). Further:

> "For us, globalisation as a political, economic, technological and cultural process is especially characterised by the growth and spread of suprastatism, supranationalism or supraterritoriality. Most commentators agree that we have witnessed a substantive growth and spread in supraterritorial relations over relatively recent times, involving the increased significance and influence of transnational and global forces, so that our world has changed."(Gallhofer, Haslam, 2006, p.905)

Economic globalisation has become a reality (Chand and White, 2007; Dwyer and Roberts, 2004) and the efforts of international financial community such as the International Accounting Standards Board (IASB) and its International Financial Reporting Standards (IFRSs) are aimed at achieving a global harmonisation or convergence of the financial aspects of business. However, the IASB assumes that all societies are similar so that international standards are suitable to all countries, but the reality may be that IFRS favour multinational companies, and enforce the imbalance of power between nations and ignores individuals (Chand and White, 2007). Indeed, developing nations have to adopt international finance and accounting standards to "reduce the cost of information and to facilitate capital flows particularly for multinational enterprises with multiple stock exchange listings" (Chand and White, 2007, p.607).

Globalisation, as a colonialism power used by Western countries, spreads big corporations' accounting and financial standards (Gallhofer and Haslam, 2006) that serve their capitalistic goals through the influence of international institutions such as the WTO and IMF (Held and McGrew, 2002) but globalisation may increase injustice rather than social justice, democracy, security, community and well-being (Gallhofer and Haslam, 2006) especially for developing countries as it focuses on a paradigm that works for Western countries. For example, Syrian practitioners evaluate globalisation as a tool of "Anglo-American" power as they draw attention to the problems facing Syrian business, even though some of these standards can be applied in a Syrian environment (Gallhofer et al., 2011).

Graham and Neu (2003) note that finance and accounting regulations crosses borders and helps international business organisations around the world access new markets. Caramanis (2002) explains that global international standards will facilitate suprastate global governance in the age of 'globalisation' especially if several supranational organisations and powerful international agents work together in developing countries. For example, international standards that govern finance and accounting will compel developing countries to embed Western financial goals, and "this feature embodies the main thrust of the realist tradition in international politics" (Caramanis, 2002, p.404). Chand and White (2007) find that adopting international standards serves multinational companies and large international accounting firms by controlling the resources and ignoring the public interest:

> "…these organisations and the accounting standards they employ serve to create and sustain the asymmetries and imbalances within and between countries. IFRSs, [as an example of international standards] therefore, are implicated in the creation of and in sustaining these power imbalances and uneven distribution of wealth" (Chand and White, 2007, p.617)

The dominance of Western countries in the world in finance favour the current large economic powers in the world (Dwyer and Roberts, 2004). However, Said (1993) explains that even though American and Western neo-colonialism is about economic power, it also affects the culture and politics of developing countries. For example, Dwyer and Roberts (2004) argue that the big four accounting firms have influence as experts and consultants for multinational companies and developing economies and the following Table 4.1 represents the number of countries to which the big accounting firms have access:

Table 4.1
Number of Countries Accounting Firms Have Access

Firm	Number of Countries Operating in
Deloitte Touche Tohmatsu	150
Ernst & Young	140
KPMG	150
PricewaterhouseCoopers	158

Source: (Deloitte. com, 2013); (Ernst and Young, 2013); (KPMG, 2013), (PwC, 2013).
Note: the table shows the big four accounting firms and how many countries each firm operates in.

The big four accounting firms have access to most of the world's nation states and their Western legacy is easy to impose in developing countries and represents a new form of colonialism. This neo-colonialism uses experts to transform developing countries' cultures and economies, instead of the old style imperialism of physical occupation (Dwyer and Roberts, 2004). These negative influences of economic globalisation make many countries:

> "reactions to globalization and to the U.S. as the embodiment of capitalism, modernity and mass culture (sic.)" (Lieber and Weisberg, 2002, p.226).

From a postcolonial theory perspective, globalisation is considered a key manifestation of neo-colonialism that has a purely capitalistic influence on finance and accounting in developing countries, that contradicts social justice. As globalisation is associated with cultural influence (Said, 1993), the SCIFs stakeholders in Saudi Arabia might focus only on profit maximisation and ignore the social justice role of SCIFs. Thus, the empirical work of this study will inspect this gap and examine whether SCIFs focus on the Islamic concepts of social justice, which stem from Islamic teachings, or only on profit and financial returns, which stem from the influence of globalisation.

4.5 Critical Theory, Islamic Social Justice, and Islamic Finance

According to Kamla et al. (2006), scholars in the field of Islamic finance and accounting concentrate their studies on practical dimensions, for example, the prohibition of usury or the calculation Zakat, while the dimension related to society, the environment and all creatures is ignored. Islamic instruction explains that all people are equal before Allah. Also, Allah gives people the trusteeship over his creations to invest responsibly and accountably. Al-Qardwi (1995) states that it is human nature to have individual motives to produce and invent things to make money, but this should not be changed to pursue selfishness and the need to control everything and never be satisfied, since such an undertaking of the economy will be a crime that legitimises the strong who can then control the poor. Accordingly, the role of Islamic teachings to investors would be to help them control their acts to be responsible and accountable to others.

There is a need to use critical theory for Islamic finance and accounting because, as Kuran (2004) comments, critical studies in Islamic economics and finance are rare. In this regard, Kamla (2009) uses a critical perspective to test the social side of Islamic banks in the Islamic world, because most Muslims should reject capitalist systems because of their failure to achieve social justice and the fair distribution of wealth. The analysis of Kamla's study "builds on the critical school's use of 'immanent criticism'[99] and the importance of interdisciplinary dimensions and theorization" (p.922) to find out the practices that help to go beyond "contradictions and negativity in Islamic finance" that comes from a deep understanding of Islamic guidance (Kamla, 2009, p.922). Another study by Kamla (2007) in an accounting context investigates the social practice of 68 companies from Arabic Middle Eastern countries to measure the level of western influence. The critical analysis focuses on:

> "…how the socio-political and economic context of the AME, including the colonial experience, has influenced the way accounting in general and social accounting in particular are regulated and practised in these countries" (p.107).

According to Pollarad and Samers (2007) postcolonial critiques for Islamic finance provide different understandings of:

> "economic and social practices and second, they push us to reconsider or 'provincialize' our understandings of normative, hegemonic economic practices and knowledges, including 'conventional' banking and finance" (p.313).

No doubt, developing countries are influenced by globalisation (Said, 1983) both positively and negatively at different levels. To conduct this study, critical theory can be applied to understand the SCIFs stakeholders' perceptions about social justice and globalisation in relation to SCIFs. In addition, this study will investigate the SCIFs' social justice role through examining the screening criteria laid down in the SCIFs prospectuses. The result will show if SCIFs focus on financial returns more than Islamic social justice concepts, such as environmental and social screening criteria. The results from the empirical works should indicate if globalisation influences SCIFs[100]. Critical theory, mainly postcolonial theory in the light of globalisation's influence, should inform the analysis of the findings as

[99] Immanent criticism "begins by reexamining an object's conceptual principles and assessing its implications and consequences" (Kamla, 2009, p.922). Accordingly, it seeks to discuss the object, by "assessment and reflection, to the possibility of radical change" (Kamla, 2009, p.922).

[100] Chapter 5 will discuss the empirical works in more detail.

critical theory pays attention to society's betterment and social change (Roslender and Dillard, 2003), and Islamic social justice seeks society's betterment. Thus, Islamic finance and for this study SCIFs, should consider social justice concepts, and not be only influenced by the Western capitalist financial system. The following section explores how globalisation as a key manifestation of neo-colonialism influences Saudi Arabia and to what extent it affects the financial sector.

4.6 Capitalism, Globalisation and Islamic Finance in Saudi Arabia

Historically, Saudi Arabia has never been physically occupied or colonised by a western power; it avoided colonisation because of its lack of attraction to colonisers (Cooper and Yue, 2008) as it was just a desert, with no known resources. However, Saudi Arabia was not isolated from the influence of colonialism as most other Muslim countries were colonised by Western powers and most of these have a strong economic and cultural relationship with Saudi Arabia (Cooper and Yue, 2008). The colonialism of Islamic countries is divided between Britain (20 states), France (13 states), Russia (6 states), Italy (2 states) and 1 state for each of the Netherlands and Portugal (Cooper and Yue, 2008). It is apparent that Western Europe was dominant over most Islamic countries and that Britain controlled the biggest share. By considering the countries surrounding Saudi Arabia, all of them had been colonised and occupied by the British imperialist power. All of the gulf countries, Kuwait, Bahrain, Qatar and Oman were colonised by Britain. Also, all of the countries that currently have a border with Saudi Arabia, Yemen, Jordan and Iraq were under Britain colonisation. Even countries on the other side of the Red Sea, Egypt and the Sudan, were occupied by Britain (Cooper and Yue, 2008). Thus, Saudi Arabia was close geographically to colonised countries and close culturally to the influence of Western colonisers because of Saudi Arabia's economic and cultural relationships with all Islamic and Arabic countries, and because Saudi Arabia needed experts to establish its new state and the best choice was skilled people from other Arabic countries, such as Egypt and Syria (Kamla, 2005), but these countries had been colonised and influenced by Western countries, the skilled people from these countries might hold Western ideas that affected the building of Saudi Arabia's financial system. Thus, mind colonialism might have been established in Saudi Arabia, in terms of finance, as a result of the influence of skilled people from previous colonised Arabic countries.

As the environment around Saudi Arabia was gradually submerged or integrated into the Western capitalist system as a consequence of colonialism. Most of the colonisers adopted capitalism; colonialism itself was for capitalistic purposes and most of the Arab world has becomes a part of the capitalistic system (Baumann, 2007). Saudi Arabia was a newly established country which needed to have an ally for its development. The United States and the United Kingdom became KSA's closest allies. Saudi Arabia used American companies in order to help discover and extract oil and, from that point, the commercial relationship between both countries flourished (Ministry of Petroleum and Mineral Resources, Saudi Arabia, 2012). Saudi Arabia was considered by the USA as "the location of America's single largest private overseas investment" (p.9) under the control of a company named the Arabian American Oil Company (ARAMCO), which was originally established by the Chevron and Texaco companies (Vitalis, 2007). In addition, the Saudi economy is linked to the U.S. economy, since the Saudi government pegged the Saudi Riyal to the US Dollar in order to promote its stability. Also, most KSA imports are paid in dollars and oil prices are denominated by dollars. Because of the strong relations with the US, Saudi Arabia considers itself as an open economy with a free market (Fox et al., 2006). Saudi Arabia attempts to be a capitalistic state, however, this has collided with some of the traditional social values of Saudi society and with Islamic instructions. For instance, dealing with interest (Riba) in the Western banking system (Wilson, 2004). Therefore, from this study’s perspective, Saudi Arabia was influenced by three colonialist factors: (i) the neighbouring countries of Saudi Arabia were colonised, (ii) the strong political and economic relationships with the United States; and (iii) the influence of neo-colonialism’s ‘globalisation’.

Fox et al. (2006) state that it is still too early to evaluate whether the impact of globalisation is positive or negative, but it is agreed that wealthier countries benefit more than others and that this will increase their wealth. The Arabian Gulf States (AGS) have a positive attitude about globalisation (Fox et al., 2006) and this will be examined by the first empirical work in Saudi Arabia. However, not all the current generation in Saudi Arabia accepts the cultural and political aspects of globalisation, because of its impact on the Islamic values that are specific to the AGS, which are more conservative than Western ones. Nevertheless, it is certain to have an impact on the next generation, since they are studying in English preparatory schools or studying in Europe and the US. Lieber and Weisberg (2002) note that globalisation heavily impacts culture as a result of “the material effects of globalisation and modernity…[and] Western values, is often more profound in its impact, even though more intangible” (p.276). In term of finance and accounting, Haniffa and Hudaib (2004) note that the Islamic financial institutions in Gulf region “have focused largely on the Western and capitalistic context, less explicit of religion” (p.19), possibly as a result of the cultural and economic influence that results from the strong relationships between gulf countries and Western countries, and emphasised by globalisation.

4.7 Conclusion

This chapter has been concerned with developing a theoretical framework for the study of SCIFs in the Kingdom of Saudi Arabia. The theoretical framework is based on critical theory, which is an umbrella term for different social theories concerned with the social and human dimension. Postcolonial theory is the main direction towards the interpretation of the research questions. The main concern of the research, in the light of postcolonial theory, is the influence of capitalism and globalisation on the possible absence of the social justice role of Saudi Arabian SCIFs. Globalisation as understood in light of postcolonial theory as a key manifestation of neo-colonialism. Fund managers, Shariah Supervisory Board members, investors, and regulators are the players who may be affected by capitalism and globalisation and might cause a deficiency in the social role of SCIFs. Thus, the influence of globalisation on SCIFs stakeholders will be examined by conducting face-to-face interviews with SCIFs stakeholders.

Capitalism has spread in the Islamic world as a consequence of colonisation and this has continued globalisation as imperialistic powers run international organisations with the assistance of advanced technology. Both facilitate former colonisers to spread their imperialistic capitalist views even throughout countries that were not colonised in the past. The current capitalist imperialism is driven under the leadership of the US. Zalloum (2009) clarifies that one of the goals of American imperialism is to prevent other economic systems from competing with capitalism and thus make it an international system for the world. Thus, developing countries' markets will be open to western multinational corporations.

Capitalism and globalisation is Western culture that is enforced in order to control the world economy. Zalloum (2009) explains that globalisation, according to its economic understanding, is the inevitable development of the Western capitalist system. Zalloum (2009, p.38) states that globalisation is best defined as:

> "…the procedure that wants to change the world's countries from banana republics[101] in favour of the US Empire, through international institutes, such as the IMF, WTO, and UN if possible, and military forces if needed".

In a country such as Saudi Arabia, which has Islamic law (Sharia) (Al-Amari, 1989) adopting capitalism will have a great effect, because:

> "(1) [The] individual becomes the cornerstone of the economy, and (2) that individual's self-interest as expressed in terms of the maximisation of satisfaction for pecuniary rewards acted at the real elan of the system" (Dunning, 2005, p.183).

Thus, capitalism supports inequalities of income and wealth (Dunning, 2005), and loses focus on society. Hence, the controversial point between the capitalist system and the Islamic financial system is that only the latter is understood to focus on social justice, equality, and fairness between all levels of the community as represented from the word "Islamic" and does not separate economics from faith and ethics, unlike other economic systems. Muslims are accountable before God for their wealth because they are appointed as trustee of the earth's resources (Kamla, 2006). The Islamic financial system links wealth and faith in different voluntary ways, such as Zakat and Sadqa. Also, through insistence on moral values, the Islamic system is against greed, and selfishness (Al-Qaradawi, 1995). It is a moral approach which cares about social justice. There are moral filters at different levels for different aspects of life to impose social justice. Islamic finance per se is two words that are embedded with each other, but the dominance of capitalistic thinking between investment funds and investors may make Islamic finance in KSA more capitalistic based rather than Islamic based, hence the focus may only be on one word: "finance". Thus, globalisation's influence may result in the Islamic concepts of social justice in SCIFs being absent. Although Saudi Arabia constitution is governed according to Islamic law (Al-Amari, 1989), the financial system is affected by capitalism and globalisation. In particular,

[101] A banana republic is a term that refers to a politically unstable country that is dependent upon limited agriculture (e.g. bananas), and ruled by a small, self-elected, wealthy, and corrupt politico-economic clique.

SCIFs in banking and financial services may not focus on social justice. SCIFs should be inspired by Islamic principles, and should place social aspects as a goal to achieve social justice. Hence, this study aims to understand SCIFs' stakeholders' insights in relation to social justice and globalisation. In addition, this study aims to understand stakeholders' views about the concepts of social justice in Islam in relation to SCIFs. The influence of globalisation might also be reflected in SCIFs' documents, such as prospectuses, for example, by focusing on the financial returns of SCIFs and ignoring the other Islamic concepts of social justice.

This research uses critical postcolonial theory to examine the influence of globalisation on the social justice aspect of Saudi Arabian SCIFs and analyse the findings. Postcolonial theory can be used to investigate the influence of globalisation as globalisation roots back to colonialism period. In addition, postcolonial theory in finance and accounting research is used to provide a critique of the problematical issues identified, such as the validity of Western finance and accounting practices. Pollard and Samers (2007) explain that postcolonial theory can be used to critique Islamic finance to provide different understandings of:

> "other sets of economic and social practices and second, they push us to reconsider or 'provincialism' our understandings of normative, hegemonic economic practices and knowledge's, including 'conventional' banking and finance" (Pollard and Samers, p.313, 2007).

The influence of neo-colonialism 'globalisation', identified as an extension of colonialism in this study, SCIFs' could displace Islamic social justice, especially the values of responsibility and accountability towards individuals, the community and the environment. Globalisation may negatively affect funds' societal views, since they may place pressure on the fund managers to only provide investors with a profit, as will be examined in the first empirical work. In the same vein, as relevant documents to SCIF investors are the prospectuses, SCIFs' prospectuses will be examined in the second empirical work. The findings from both empirical works will answer this study's research questions. Ultimately, this thesis seeks, at the end of the empirical work, to document the result, tension and contradiction between globalisation and Islam within a postcolonial kind of world, which is theorised in terms of critical theory. The next chapter provides a summary of the methodology employed to answer the research questions.

Chapter 5

Research Design: Methodology and Methods

5.1 Introduction

Chapters 2 and 3 reviewed the literature related to this research study, and Chapter 4 was concerned about building the theoretical framework to be employed. This chapter will address the research methodology and methods that have been used to collect the primary data for this thesis. Regarding the research methodology, there are three areas of discussion: i) the assumption about the nature of social science; ii) the assumption about the nature of society; and iii) the research paradigm. In the research method, the discussion will focus on the two methods underpinning the analysis, which are semi-structured interviews and content analysis.

5.2 Research Methodology

This section will explain the philosophical view and assumptions made for any research project. Most of the discussion will be based on the framework produced by Burrell and Morgan (1979).

5.2.1 Assumptions about the Nature of Social Science

Burrell and Morgan (1979) identify four assumptions related to the nature of social science: ontology; epistemology; human nature; and methodology. For each assumption, there are two philosophical views: subjectivity and objectivity. The following figure illustrates the four factors and both dimensions.

Figure 5.1
Burrell and Morgan's (1979) Assumptions about the Nature of Social Science

The Subjectivist Approach				***The Objectivist Approach***
Nominalism	←	**Ontology**	→	**Realism**
Anti-Positivism	←	**Epistemology**	→	**Positivism**
Voluntarism	←	**Human Nature**	→	**Determinism**
Ideographic	←	**Methodology**	→	**Nomothetic**

Source: Burrell and Morgan 1979, p.3

In the objectivist approach, social entities exist in a reality that is external to social actors (Saunders et al., 2009). According to Bryman (2008):

> "Objectivism is an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors. It implies that social phenomena and the categories that we use in everyday discourse have an existence that is independent or separate from actors" (p.16).

Maedche (2002) defines ontology as "a philosophical discipline, a branch of philosophy that deals with the nature and the organisation of being" (p. 11). The ontological assumptions consider the nature of reality (Burrell and Morgan, 1979; Guba and Lincoln, 1994); it looks to researcher's assumptions about the world, their operation and the commitment leading to that observation (Saunders, Lewis, and Thornhill, 2009). Ontology seeks to understand "what is" (Gray, 2004) and explains whether social phenomena happened in their own right or are representations of things (Corbetta, 2003). Ontology is divided into two positions. In the subjective dimension, nominalism assumes that social reality is relative and there are no real social structures in the world, but that the reality of the world's social structure depends on the individual consciousness and is not external to individuals. The social world is just names, concepts and labels that work to make reality organised (Burrell and Morgan, 1979). In the objective dimension, realists view the world as tangible, immutable structures (Burrell and Morgan, 1979). This suggests that reality is the truth and the human mind is independent (Saunders et al., 2009).

Epistemology is concerned with answering the question of "what it means to know", and helps with choosing "What kinds of knowledge are legitimate and adequate" (Gray, 2004) to understand what should be known (Bryman, 2008). If the social science researcher adopts the objectivist approach, the epistemology will be positivism, but that for the subjectivist approach will be anti-positivism. Positivists state that knowledge is gained through observation while anti-positivists argue that they are seeking understanding and rejecting objectivity and the need for the independence of the observer (Burrell and Morgan, 1979). Brayman (2004) defines positivism as "an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond" (p. 11). Saunders et al. (2009) explains that positivism is looking for a final result which will be a law-like generalisation similar to natural science results. Anti-positivism understands knowledge as something that must be experienced personally. This perspective rejects the objective understanding that social science will create objective knowledge (Morgan and Smirich, 1980). The main difference between positivism and anti-positivism is that the latter is not looking for laws or underlying regularities of social affairs, as in science, because the social world cannot be science (Burrell and Morgan, 1979).

The assumption about human nature concerns the relationship between humans and their environment. Social science is closely related to human activities, so it important to understand human nature (Burrell and Morgan, 1979). Determinism and voluntarism are the two approaches of Burrell and Morgan's (1979) human nature assumption. Determinism which, in the objectivist approach, assumes that human beings and their experiences and activities are products of the environment, which is influenced by external situations. On the other hand, voluntarism assumes that any person is free, autonomous and free-willed, and so responsible for their actions (Burrell and Morgan, 1979). The methodological choices are influenced directly by ontological, epistemological and human nature views (Burrell and Morgan, 1979).

The last assumption is the methodology, which is concerned about how to gain knowledge about the world (Burrell and Morgan, 1979). It helps to form the theoretical and philosophical assumptions of the research that will affect the research methods (Saunders et al., 2009). The Ideographic approach is the subjectivist approach to methodology. It argues that understanding can be gained from first-hand knowledge by entering circumstances and learning about the complexities of particular issues (Burrell and Morgan, 1979). This approach "stresses the importance of letting one's subject unfold its nature and characteristics during the process of investigation" (Burrell and Morgan, 1979, p. 6).

On the other hand, nomothetic is the objectivist approach to methodology. It utilises quantitative analysis protocols and techniques to find answers to the research questions (Burrell and Morgan, 1979). That approach uses the methods of natural science by focusing on the formulation of scientific tests. Nomothetic tests use quantitative and experimental methods (Burrell and Morgan, 1979). However, ideographic and nomothetic approaches are not strict dichotomies; merely two influential research methodologies (Burrell and Morgan, 1979).

The objective of this study is to understand whether social justice plays a key role in Sharia compliant investment funds because of the strong emphasis on social justice in Islam. To conduct this study, the researcher assumes that there is no tangible reality out there and, as a result, turns towards nominalism for the ontology assumption. Accordingly, subjectivity rather than objectivity will be exercised in this research, with knowledge not being independent of particular contexts. The epistemology is anti-positivism. There is an intention to take a personal experience of the importance of social justice with no intention of creating a law-like generalisation. The researcher has used two methods to gain knowledge. The first method involves conducting semi-structured interviews with four stakeholder groups in Sharia compliant funds. The second method involves conducting a content analysis of Sharia compliant investment funds' prospectuses. Human nature falls between voluntarism and determinism because, while there is a degree of free will and autonomy, some fund stakeholders have the ability to make decisions that lead to change. According to the research ontology, epistemology and human nature, the research methodology will be ideographic in nature. This study explores the perceived reality of the interviewees and Sharia compliant investment funds prospectuses.

5.2.2 Assumption about the Nature of Society

Society is structured according to two different research approaches and two theories relating to the structure of society have been advanced: order and conflict (Burrell and Morgan, 1979). On one hand, the 'order' or 'integrationist' view of society concentrates on stability, integration, functional co-ordination and consensus, but the 'conflict' or 'coercion' view of society concentrates on change, conflict, disintegration and coercion (Burrell and Morgan, 1979). These two views are illustrated in the following table:

Table 5.1
The Order-Conflict Theories

The 'Order' or 'Integrationist' View of Society's Emphases	*The 'Conflict' or 'Coercion' View of Society's Emphases*
Stability	Change
Integration	Conflict
Functional co-ordination	Disintegration
Consensus	Coercion

Source: Burrell and Morgan 1979, p.13

Those two theories about the nature of society has changed into debates between regulation and social change (Burrell and Morgan, 1979). Regulation is concerned with unity and cohesiveness by consensus (Burrell and Morgan, 1979). Burrell and Morgan (1979) stated:

> "[Sociology of regulation] is a sociology which is essentially concerned with the need for regulation in human affairs; the basic questions which it asks tend to focus upon the need to understand why society is maintained as an entity. It attempts to explain why society tends to hold together rather than fall apart" (p. 17).

In the meantime, radical change is focused on and seeks emancipation from the structures but there is a clash with the potential for development (Burrell and Morgan, 1979). Burrell and Morgan (1979) stated that radical change is:

> "... a sociology which is essentially concerned with man's emancipation from the structures which limit and stunt his potential for development. The basic questions which it asks focus upon the deprivation of man, both material and psychic" (p. 17).

The following table illustrates Burrell and Morgan's (1979) regulation and radical change dimension:

Table 5.2
The Regulation-Radical Change Dimension

The Sociology of Regulation is Concerned with:	***The Sociology of Radical Change is Concerned with:***
The status quo	Radical change
Social order	Structural conflict
Consensus	Modes for domination
Social integration and cohesion	Contradiction
Solidarity	Emancipation
Need satisfaction	Deprivation
Actuality	Potentiality

Source: Burrell and Morgan 1979, p.18

To conduct this thesis, the sociology of radical change will be adopted, as this will assist the interpretation of the interviewees and content analysis results and critical theory that adapted in this thesis support radical change.

5.2.3 Research Paradigm

Saunders et al. (2009) define a paradigm as:

> "A paradigm is a way of examining social phenomena from which a particular understanding of these phenomena can be gained and explanations attempted" (p.112).

The research paradigm produced by Burrell and Morgan (1979) creates a map to assist with clarifying the researcher's assumptions about the nature of science and society. In addition, it helps with designing and planning the research so that researchers can understand where they stand. However, combining Burrell and Morgan's (1979) objective-subjective and regulation-radical change dimensions produces a matrix of four key sociological paradigms. These four paradigms are functionalist, interpretive, radical structuralist and radical humanist (see figure 5.2). These four paradigms are founded upon mutually exclusive views of the social world. Every paradigm has its own exclusive and unique analysis of the social world. Jackson (2000) explains that Burrell and Morgan's (1979) paradigms are popular because they:

> "…enable us to relate systems approaches to different sociological paradigms and to learn much about what they take for granted about social science and society in the "frameworks of ideas" they employ" (p.23).

Figure 5.2
Social Research Paradigm

The sociology of radical change

	Radical Humanist	Radical Structuralist	
Subjective	Interpretive	Functionalist	Objective

The sociology of regulation

Source: Burrell and Morgan 1979, p.22

The functionalist paradigm assumes a realist ontology, with a positivist epistemology, a deterministic view of human nature and a nomothetic methodology. This paradigm provides a rational explanation of human nature. It can be rooted in sociological positivism, since researchers have identified, studied and measured research using scientific techniques (Burrell and Morgan, 1979). Since the 1970s, this paradigm has been considered dominant in much of the finance and accounting research (Dunne, 2003). The interpretive paradigm assumes a nominalist ontology, with an anti-positivist epistemology, a voluntarist view of human nature, and an ideographic methodology. Burrell and Morgan (1979) state that:

> "The interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action" (p. 28).

The functionalist and interpretive paradigms use a social assumption based on the sociology of regulation (Burrell and Morgan, 1979). However, the radical structuralist paradigm shares the same assumptions about the nature of science with the functionalist paradigm, and radical humanists share the same assumptions about the nature of science with the interpretive paradigm. The radical structuralists and radical humanists make social assumptions based on the sociology of radical change. The sociology of radical change uses critical attitudes for research, providing a view regarding the procedures that are supposed to be carried out in the organisation's affairs and make a major change (Saunders et al., 2009). Radical structuralist paradigm theorists explain that conflict lies within society, which causes the need for continuous change through political and economical crises. This paradigm is fundamental to theorists such as Marx, Engles and Lenin (Burrell and Morgan, 1979; Dunne, 2003). Radical humanist paradigm theorists emphasise the significance of relaxing the social constraints that limit human potential. They argue that the current dominant ideologies separate them from their true selves. That paradigm aims to achieve a revolutionary change in society by liberated individuals (Burrell and Morgan, 1979). Burrell and Morgan (1979) state that: "The radical humanists subject it to critique, focusing upon what they regard as the essentially alienated state of man" (p.279). To analyze this paradigm, Jackson (2000) stated:

> "we have to understand the intensions of the human beings which construct them. The ability of people to transform the system they have created will be apparent. The way to learn about these systems is to involve ourselves in their activities" (p.24).

The fact that Burrell and Morgan's (1979) paradigms are adopted by many social science researchers does not mean that they do not attract criticism. Laughlin (1995) refuses the subjective-objective dimension produced inside the Burrell and Morgan framework because it is "too simplistic" (p. 66), arguing that it isolates "many, if not most, of the key domains for choice" (p. 66). In addition, Chua (1986) criticises Burrell and Morgan's four views of the social sciences. Chua (1986) highlighted two main problems with the Burrell and Morgan framework. First, she clarified that it is incorrect to use only mutually exclusive dichotomies. Second, she argued that Burrell and Morgan have misunderstood Kuhn as advocating an irrational paradigm choice. Kuhn argued that the old influences of what formed rational scientific choice were inadequate (Chua, 1986).

This study, as previously discussed, will use ideographic methodologies, and it will present an exploration and critique of the perceived reality of the interviewees and funds prospectuses. The nominalist ontology, an anti-positivist epistemology, an intermediate position on the assumptions concerning human nature, and the use of ideographic methodologies put this study inside the radical humanist paradigm, as explained by Burrell and Morgan (1979). As a result of using ideographic methodologies and to achieve this study, the researcher will use two qualitative methods.

The first research method will be face-to-face, semi-structured interviews with the SCIFs stakeholders to: (i) understand their perceptions in relation to social justice and globalisation; and (ii) if SCIFs should play have a social justice focus. The second piece of work will be a word content analysis of SCIFs' prospectuses to examine if globalisation has influenced the content. For example, the focus on words related to Western concepts, such as 'performance' or 'profit', and ignoring other words, such as 'accountability' or 'environment' will indicate the negative influence of globalisation on SCIFs and vice versa. The empirical works are explained further in sections 5.3.1 and 5.3.2, respectively.

5.3 Methods

In order to achieve this study, qualitative methods of data collection will be used. In this regard, Creswell (1998) argues that qualitative research is based on an inquiry process "that explores a social or human problem" and how people understand things. It mainly focuses in finding out what people do, how they think, acquire knowledge and feel. In this approach the researcher "builds a complex, holistic picture, analyzes (sic.) words, reports detailed views of informants, and conducts the study in a natural setting" (Creswell, 1998, p. 255) by methods such as observation, interviews and analysis (Creswell, 1998). Two methods will be used to achieve this study. As Saunders et al. (2009) explained, the use of more than one method in research is important because:

> "...different methods can be used for different purposes in the study. You may wish to employ, for example, interviews at an exploratory stage, in order to get a feel for the key issues before using a questionnaire to collect descriptive or explanatory data. This would give you confidence that you were addressing the most important issues" (p. 153).

The following section points out the different issues in relation to the two research methods used to conduct this study.

5.3.1 Semi-Structured Interviews

The first research method that will used to conduct this study is interviews. Saunders et al. (2009) explains that: "the use of interviews can help you to gather valid and reliable data that are relevant to your research question (s) and objectives" (p. 318). There are three kinds of interview: structured, unstructured and semi-structured. Semi-structured interviews are employed for this dissertation because structured interviews are prepared and based on standardised questions to gather quantifiable data (Saunders et al, 2009) and unstructured interviews engage in informal and non-standardised discussions, where the interviewee has the ability to talk openly about the topic under investigation with the interviewer (Bryman, 2008). The semi-structured interview is defined by Bryman (2008) as:

> "The researcher has a list of questions or fairly specific topics to be covered, often referred to as an interview guide, but the interviewee has a great deal of leeway in how to reply. Questions may not follow on exactly in the way outlined on schedule. Questions that are not included in the guide may be asked as the interviewer picks up on things said by interviewees. But, by and large, all of the questions will be asked and a similar wording will be used from interviewee to interviewee" (p. 321).

The main differences between structured and semi-structured interviews as explained by May (2005) are as follows:

> "In moving from the structured interview to the unstructured interview, researchers shift from a situation in which they attempt to control the interview through predetermining questions and thus teach the respondent to reply in accordance with the interview schedule (standardization), to one in which the respondent is encouraged to answer a question in their own terms" (p. 121).

Generally, the quality of the data collected during the interviews depends fundamentally on the interviewer's skills and experience (Saunders et al, 2009). In other words, interviewers should have skills that help them to notice everything, observe the issues under study, understand the interviewees' perspectives and keep the interviews in the same area (Patton, 2002).

Due to the fact that a lot of information can be collected from interviews, recording the interviews is recommended. Patton (2002) highlights that:

> "The raw data of interviews are the actual quotations spoken by the interviewees. Nothing can substitute for these data: the actual things said by real people. That's the prize sought by the qualitative inquirer" (p. 380).

The following table illustrates the advantages and disadvantages of using audio-recording when conducting research interviews (Saunders et al, 2009).

Table 5.3
Advantages and Disadvantages of Audio-Recording Interviews

Advantages	Disadvantages
• Allows interviewer to concentrate on questioning and listening.	• May adversely affect the relationship between interviewee and interviewer (possibly of 'focusing' on the audio recorder).
• Allows questions formulated at an interview to be accurately recorded for use in later interviews where appropriate.	• May inhibit some interviewee responses and reduce reliability.
• Can re-listen to the interview.	• Possibility of a technical problem.
• Accurate and unbiased record provided.	• Time required to transcribe the audio-recording.
• Allows direct quotes to be used.	
• Permanent record for others to use.	

Ahmed (2013, p. 155).

Recording interviews does not reduce the importance of taking notes during the interview. This is important in case the recorder does not work, and it will also create a first impression of the inquiry and make the interview transcription and analysis easier (Patton, 2002). However, not all of the information recorded during an interview may be transcribed, as some information is irrelevant to the study (Dunne, 2003). Bryman (2008) explains that "transcribing interviews is very time consuming" (453).

There are different advantages associated with using interviews as the primary method for the data collection. Hussey and Hussey (1997) state that an interview "permits the researcher to ask more complex questions and ask follow-up questions" (p. 158). The face to face interview is more reliable because it gives the interviewer the ability to explain and clarify the questions to obtain the appropriate answers (Sekaran, 2003). In addition, "it permits a higher degree of confidence in the replies…and can take account of non-verbal communication" (Hussey and Hussey, 1997, p. 158). An important advantage is that interviewers can paraphrase their questions according to the conversation. As Walliman (2001) states an interview "is a flexible tool with a wide range of applications" (p.238).

However, interviews are not always the preferred method for researchers because there are some disadvantages to them. First, they are time consuming and cost a lot of money if located in a different country to the research (Sekaran, 2003; Falgi, 2009; May, 2011; Ahmed, 2013). Research bias is another issue related to the interview method as a result of the flexibility afforded to the interviewees and the interviewer (Ahmed, 2013). Also, the interviewer might not speak honestly or in depth concerning the topic, especially with regard to sensitive questions, because of a lack of anonymity (Ahmed, 2013). Because the interview method is used in certain contexts and to generate certain results, it does not help with the systemic generalisation of results (Denscombe, 2010). In addition, it needs some skills and network of friends in the area that the researcher is investigating. As Saunders et al. (2009) state "using the interview to collect research data requires considerable skills" (p. 319).

To conduct this study, the researcher decided to use semi-structured interviews for several reasons. First, they are flexible and facilitate comparable analyses. Second, they help the researcher to concentrate on the main objective of the topic because he can ensure that all of the questions are covered. Finally, they provide flexible, rich and detailed answers (Bryman, 2008).

The first step in conducting a semi-structured interview involves the researcher developing an interview guide that contains the relevant topics, followed by questions related to the study (appendices 6.1 to 6.4). The topics and questions are developed from the literature review of Islamic finance in general, Sharia compliant funds in general and in KSA, and Islamic religion as informed by critical theory. The interview guide contains three main topics: background information about the interviewees, Islamic investment fund practices and social justice. Different important information is cared, and, depending on the interviewee there are 26 or 27 questions. The difference in the number of questions depends on the four stakeholder groups in this study. These stakeholders are: fund managers; Sharia supervisory board members; investors; and regulators, all of whom are engaged in Sharia compliant funds.

The researcher piloted the semi-structured interview questions with staff and PhD students at the University of Dundee School of Business. The pilot was in English and Arabic, since the main language in KSA is Arabic. Twenty four face to face interviews were held in KSA, all but four in Arabic. The interviews were conducted between January and March 2011 in three major cities: Riyadh, Jeddah and Mecca. The interviews with fund managers and Sharia supervisory board's members took place either in Jeddah or Riyadh, as shown in table 5.4. The interview sample consists of 15 fund managers, 4 Sharia supervisory board members, and 4 investors and members of regulatory bodies.

The fund managers interviewed were working in either totally Sharia compliant investment institutions or in the Sharia compliant investment window in conventional institutions. The coordination of the interviews with fund managers was achieved through the researcher's friends and relatives who work in this area. The coordination with the Sharia supervisory board members was challenging, as many apologies were received and one of the well-known Sharia supervisory board members allowed only 10 minutes for the interview. However, two of the Sharia supervisory board members spent a lot of time with the researcher and provided much valuable information. The investor interviews went smoothly. Finally, it was hard to catch the members of the regulatory bodies due to many apologies or being ignored in some cases. After great efforts, one of the regulatory bodies' employees agreed to give a telephone interview. The interviewees are described in Table 5.4.

Table 5.4
Categories of Interviews

No	Code	Orgnisation	City
	Fund managers		
1	FM1	Islamic window	Riyadh
2	FM2	Islamic financial institution	Riyadh
3	FM3	Islamic financial institution	Riyadh
4	FM4	Islamic window	Riyadh
5	FM5	Islamic financial institution	Riyadh
6	FM6	Islamic financial institution	Riyadh
7	FM7	Islamic financial institution	Riyadh
8	FM8	Islamic window	Riyadh
9	FM9	Islamic financial institution	Jeddah
10	FM10	Islamic financial institution	Jeddah
11	FM11	Islamic financial institution	Jeddah
12	FM12	Islamic financial institution	Jeddah
13	FM13	Islamic financial institution	Jeddah
14	FM14	Islamic financial institution	Jeddah
15	FM15	Islamic financial institution	Jeddah
	Sharia supervisory board members		
16	SSB1	SSB member	Riyadh
17	SSB2	SSB member	Jeddah
18	SSB3	SSB member	Jeddah
19	SSB4	SSB member	Riyadh
	Investors		
20	I1	Sharia compliant funds investor	Riyadh
21	I2	Sharia compliant funds investor	Mecca
22	I3	Sharia compliant funds investor	Mecca
23	I4	Sharia compliant funds investor	Jeddah
	Regulatory body		
24	RB1	Head of investment fund department	Riyadh

Note: The table shows the four categories of interviews. The fund managers had 10 years experience, on average.

Table 5.5 demonstrate interviewees' level of education and ages. Most interviewees are highly educated and the majority hold a masters degree and are between 30 to 40 years old.

Table 5.5
Interviewees' Level of Education

Certificate	**No.**
Bachelor	8
Master	12
PhD	4
Total	**24**

Table 5.6
Interviewees' Ages

Age	**No**
20-30	1
30-40	13
40-50	6
Over 50	4
Total	**24**

Note: The tables show the interviewees' level of education and ages.

5.3.2 Content Analysis

The second empirical method employed in this thesis is content analysis. The researcher conducted a content analysis of Sharia compliant investment funds prospectuses to see if there is globalistion influence on the prospectuses content that influence social justice. A brief outline of the content analysis research method will be presented in this section, together with an explanation of its suitability for use in this dissertation.

There are various definitions of the content analysis research method. One of the older definitions is provided by Berelson (1952), who defined content analysis as:

> "... a research technique for the objective, systematic and quantitative description of the manifest content of communication" (p. 18).

Krippendorf (2004) provides a more recent definition of content analysis:

> "... a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use" (p. 18).

It is an important research method employed in the social sciences as Krippendorf (2004) notes:

> "Content analysis is potentially one of the most important research techniques in the social sciences. The content analyst views data as representations not of physical events but of texts, images, and expressions that are created to be seen, read, interpreted, and acted on for their meanings, and must therefore be analyzed with such uses in mind. Analyzing texts in the context of their uses distinguishes content analysis from other methods of inquiry (sic.)" (p. xiii).

It is a method that involves classifying the text of written communication into different categories according to chosen criteria (Weber, 1985). A large amount of disclosure of a specific kind of information indicates the importance to users of the document or text. Also, if some information is hidden in the document, it can be discovered through this technique (Denscombe, 2003). The key attributes of content analysis are provided by Denscombe (2003). Table 5.7 presents these attributes:

Table 5.7
Denscombe's (1998) Key Attributes of Content Analysis

Content analysis reveals	**by measuring**
1. What the text establishes as relevant	What is contained (e.g. particular words, ideas)
2. The priorities portrayed through the text	How frequently it occurs; in what order it occurs
3. The values conveyed in the text	Positive and negative views on things
4. How ideas are related	Proximity of ideas within the text, logical association

Dunne (2003, p. 131).
Note: these key attributes help researchers to analyse the text to maximum value.

In the same vein, Gray et al. (1995) recommend content analysis as a research method which has been widely used in the field of finance and accounting (see, for instance, Ernst and Ernst, 1978; Guthrie and Mathews, 1985; Cowen et al., 1987; Tinker and Neimark, 1987; Harte and Owen, 1991; Guthrie and Parker, 1990; Roberts, 1991; Adams et al., 1995; Gray et al., 1995 a, b; Buhr, 1998; Unerman,2000; Lodhia, 2000; Wilmshurst and Frost, 2000; Beattie et al., 2002; Dunne, 2003; Kamla, 2005; Ferguson, 2005; Finningham, 2010; Rahman et al., 2010; Rahman et al., 2012; Kamla and Rammal, 2013).

5.3.2.1 Stages in the Content Analysis Process

There are different stages involved in conducting content analysis (Carney, 1971; Kassarjian, 1977; Krippendorff, 2004). The technique for content analysis "involves establishing categories and then counting the number of instances when those categories are used in a particular item of text" (Silverman, 1993, p. 29). Accordingly, the process of conducting content analysis can be broken down into several stages. First, proper representative data is required (Carney, 1971; Kassarjian, 1977; Krippendorff, 2004). It is important that the sample is manageable (Kassarjian, 1977). Besides the sample population, a sampling unit needs to be chosen (Krippendorff, 2004). One of the popular sampling units used in finance and accounting content analysis is annual reports, but other documents including accounting standards, letters to shareholders, and books are also used (Jones and Shoemaker, 1994; Unerman, 2000).

The second stage of content analysis involves creating a unit of measurement or coding unit for analysis (Krippendorff, 2004). For example, a word, theme, character, item, visual image or content of pictures can be used as the coding unit (Gray et al., 1995 and Krippendorff, 2004; Hooks and Staden, 2011). The researcher should choose an appropriate coding unit for his/her research because different techniques may end with irrelevant results

(Unerman, 2000). Different coding units have been used in previous studies, such as sentence counts, that was the chosen method for Milne and Adler (1999), Bozzolan et al. (2003), Guthrie et al. (2006), Vandemaele et al. (2005). The counting of relevant words is another coding unit that is used by Zeghal and Ahmed (1990) and Deegan and Gordon (1996). Other coding units include text clauses, pages and the proportion of pages (Hooks and Staden, 2011). However, there is no preferable technique, but Hackston and Milne (1996) explain that the measurement error between various measurement techniques is negligible.

The third stage is the development of applicable categories for classification (Kassarjian, 1977; Krippendorff, 2004). A level of subjectivity is engaged in this stage which is hard to control and impossible to remove totally. As a result, it is essential to define categories from the beginning to the end with appropriate classifications (Kassarjian, 1977; Krippendorff, 2004). After that, it is important to conduct a pilot study before going so far. Carney (1971) notes that conducting pilot tests for content analysis is important to test the robustness of the decision rules and study tools. This will help to find out if any changes should be applied to the decision rules (Carney, 1971).

The fifth stage is coding and recording. This stage "enables specific instances of defined disclosure to be classified according to the pre-determined decision rules" (Dunne, 2003, p.134). Experience of analysing data is important so that the researcher can eliminate any ambiguities and introduce rules in clear terms. The researcher can undertake some training or perform this under an experienced supervisor to avoid making mistakes (Finningham, 2010).

The last stage involves using statistical or numerical analysis for collecting the data. This stage is used for unstructured documents, such as annual report documents (Dunne, 2003). Finally, the researcher will test the data regarding its wider context so that he can describe and draw inferences from the analysis (Dunne, 2003).

5.3.2.2 Reliability and Validity

It is important for any research method to be effective; accordingly, content analysis must possess two important characteristics: reliability and validity (Krippendorff, 2004). Reliability is considered one of the main characteristics of content analysis that makes it superior to other efforts to explain the content of the communication (Kassarjian, 1977; Krippendorff, 2004). There are three kinds of reliability for content analysis: stability, reproducibility and accuracy (Krippendorff, 2004). First, stability indicates to the judge to code data in the same way over time (Beattie et al., 2001; Krippendorff, 2004). Second, reproducibility refers to the ability to have the same coding when there are more than one coders involved in the research (Beattie et al., 2001; Krippendorff, 2004). Third, accuracy is "the degree to which the coding performance adheres to either a pre-determined standard or to results from previous studies" (Finningham, 2010). The researcher should be sure that the results do not reflect the subjective bias of the researcher; as a result, it is important to develop obvious defined rules and procedures to conduct content analysis properly (Krippendorff, 2004). The second characteristic, validity, means the degree to which the results of the content analysis reflect the reality (Jones and Shoemaker, 1994). As a result, developing a coding scheme as a guide is important when applying content analysis (Potter and Levine-Donnerstein, 1999; Krippendorff, 2004). The guide will improve the consistency of the coding across all codes and make the coding procedure a systematic process. By applying this process, only relevant information will be captured, the problem of bias will be reduced, and the findings will be more relevant and generalisable (Kassarjian, 1977; Krippendorff, 2004).

5.3.2.3 Content Analysis in Finance and Accounting

The content analysis method is used widely by researchers in the finance and accounting field. Most studies that use content analysis in the finance and accounting field are about social and/or environmental reporting. (Bowman and Haire, 1976; Ernst and Ernst, 1978; Abbott and Monsen, 1979; Ingram and Frazier, 1980; Neimark, 1983; Frazier et al., 1984; Cowen et al., 1987; Guthrie and Parker, 1989; Zeghal and Ahmed, 1990; Roberts, 1991; Patten, 1992; Adams et al., 1995; Gray et al., 1995a; 1995b; Hackston and Milne, 1996; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Thomas and Kenny, 1996; Buhr, 1998; Neu et al., 1998; Milne and Adler, 1999; Unerman, 2000; Ferguson et al., 2005). The method is also used in different studies in the field of finance and accounting, such as investigating financial analysts' recommendations and reports, examining organisational practices, accounting education, narrative disclosures regarding bankruptcy and, recently, investigating the content of corporate web sites (Dunne, 2003; Finningham, 2010). One example of using content analysis in the field of finance and accounting was that of Stone (2001), who used this method to formulate a portfolio screening model for socially responsible mutual funds. In addition, this technique was also used to analyse the codes of ethics of 15 US organisations (Gaumnitz and Lere, 2002).

5.3.2.4 Disadvantages of the Content Analysis Method

Despite the fact that the content analysis method is widely used in the finance and accounting field, however, like any research method, it has its limitations. The following are some of these limitations. Carney, (1971) and Denscombe (1998) explain that the content analysis technique engages a substantial element of subjectivity. The method possesses an inherent trend to "dislocate the units and their meaning from the context in which they were made" and also even from the writer's intentions (Denscombe, 1998, p. 222). Also, one of the difficulties of content analysis is that it depends on the questions asked and source materials available, and sometimes the choice of categories is complicated and tricky (Carney, 1971). The method is "accused of being quite susceptible to the effects of researcher biases" (Dunne, 2003, p.139), which as a result, can affect the collection, analysis and interpretation of the data (Jones and Shoemaker, 1994). The bias can affect the researchs contribution to knowledge but this can be reduced by using an appropriate, reliable, valid and accurate coding scheme by the researcher (Krippendorff, 2004).

5.3.2.5 Content Analysis in this Study

The field of Islamic finance is still new and a lot of knowledge needs to be developed and improved. However, the most relevant material for conducing content analysis of Sharia compliant investment funds are their prospectuses. The funds' prospectuses disclose and focus on information that will help potential investors to understand and evaluate Sharia compliant investment funds. These should play a key role in social justice as they are based on Sharia law principles.

There are two approaches to conducting content analysis. The first approach is the 'form orientated' approach (based on counting words), while the second approach is the 'meaning orientated approach' (based on counting the underlying themes) (Smith and Taffler, 2000, p. 627). Smith and Taffler (2000) prefer to use the first approach because it is more reliable, but Krippendorff (2004) prefers the second approach, except that it is difficult in practice. The first approach is the one suggested for use in this study because "this approach reflects the notion that the frequently a word or phrase is used, the greater is its importance to the area under investigation" (Ferguson et al., 2005, p.30). In addition, word counting helps to "contrast the results" (Carley, 1993, p.81) and produce a better analysis of the results. As this study adopts a subjectivist approach and is located on a radical humanist paradigm, as identified by Burrell and Morgan (1979), and uses a postcolonial theory that seeks a radical change of activities that influence social justice, a word content analysis will be an appropriate approach. The word content analysis will indicate if SCIFs have been influenced positively or negatively by globalisation. For instance, if the SCIFs' prospectuses focus on words, such as 'profit' or 'financial returns', and there are essential differences in frequency from words related to Islamic teachings, such as 'environment', this would indicate a negative influence of globalisation and vice versa. To conduct this study, content analysis using word count will be conducted on all available prospectuses for Sharia compliant equity investment funds focusing on their terms and conditions.[102]

5.4 Conclusion

This chapter outlines the philosophical point of view that is adopted for conducting this study. The assumptions about the nature of social science and the nature of society presented by Burrell and Morgan (1979) have been discussed in and according to the discussion, the radical humanist paradigm is adopted. The discussion leads to the adoption of two suitable qualitative research methods for examining the study; semi-structured interviews and content analysis research methods which are outlined in this chapter. The following chapters will discuss in depth the findings of these two research methods.

[102] Chapter 7 includes more details about the sample choice, the data capture, reliability, replicablity, the categories of disclosure and the data coding.

Chapter 6

Interviews Analysis: Sharia Compliant Investment Funds and Social Justice

6.1 Introduction

The first research method adopted as a primary tool for conducting this thesis is semi-structured interviews[103]. The main objectives of these interviews are: to understand the current practices of SCIFs in KSA in order to evaluate the perceptions of the interviewees on social justice and the role of SCIFs in social justice; in the context of KSA and globalisation. The interviewees in this study include fund managers, regulatory bodies, investors, and Sharia supervisory board members. Twenty four interviews were conducted between January and March 2011. The researcher explored investment funds' stakeholders' opinions, and their experience and concerns regarding social justice and SCIFs in KSA. The interview analysis contributes to our understanding of how globalisation impacts on SCIFs' role in enhancing or hindering social justice in KSA society.

The structure of this chapter is as follows: first, it explains social justice from the interviewees' perspectives, followed by a discussion of SCIFs and social justice. The next part of this chapter discusses globalisation and how this has impacted on SCIFs and its social justice role.

6.2 Islamic Principles versus Islamic Investment Practice

This section focuses on whether Islamic investment practices match Islamic teachings and concepts of social justice[104]. The interviewees emphasised that social justice was important in Islam in improving people's lives, stemming from Islamic teachings and the fact that Islam's message was all about social justice and any deficiency was due to the people not following the spirit of Islam. According to the Islamic religion, the people on earth are considered trustees (Kamla et al., 2006; Lewis, 2010; Ajija and Kusreni, 2012); as God

[103] The interviews categories presented in chapter 5 in Table 5.4. The interviews questions for each group are presented in the appendices 6.1 to 6.4.

[104] This section is related to the second research question which is concern understanding the interviews perception with regard social justice.

stated in the Qur'an, "I will create a vicegerent on earth" (Qur'an, 2: 30). In the same vein, FM8 explained that social justice in Islam was "a religious requirement" and FM6 said:

> "...within the scope of things that we learn from our prophet and we learnt from the Qur'an, social justice is very much part of it".

FM13 explained that "Islam is very detailed in its approach to a lot of issues that basically we deal with", and FM14 noted that Islam was an ideology that taught people how to conduct their life, deal with and treat other people, and how to conduct business. Kamla et al. (2006) agrees that Islam is an ideology that has principles that can enhance people's lives. FM8 and I2 thought that social justice would spread stability in the community over security, the environment, health and economics, and help to push development. That accords with Kamla et al. (2006) comment that "the environment is central in Islam"[105] (p.248). FM9 linked the development and growth of the economy with social justice, stating that "where you find social justice, you find development". FM11 pointed out that social justice was important because it motivated development, helped to solve problems and fight poverty, ignorance and unemployment, and worked to the benefit of the whole of society. FM11 defined social justice in Islam as an ethical obligation, noting:

> "It is an ethical commitment that is supposed to contribute to establishing, improving, and protecting society through establishing social goals that can apply Islamic principles".

This accords with the view of Balala (2010), who explains that Islamic law shows and gives guidance to social justice and must be followed as far as possible. The interviewees reflected different concepts under the principle of social justice in Islam. The social justice concepts in Islam are covered in the next few sections and include: Takaful; brotherhood; fairness and equality; mercy; and Zakat and Sadqa.

[105] The environment is important in Islam as Kamla et al. (2006) noted "the environment is central in Islam. Many Islamic concepts or principles in the Quran and in the words and actions of the Prophet, such as Tawheed (Unity of God), Khilafah (vicegerency), Umma (community), Adl (justice), Ihsan (kindness), Hikma (wisdom) and Tawadu (modesty), carry substantive implications concerning the relationship between humankind and the natural environment. And the Islamic Sharia that guides Muslims reflects such concerns" (p.248).

i) Takaful

The first concept of social justice in Islam, as reflected by the interviewees, was Takaful. FM11 emphasised that Takaful was:

> "...an ethical principle that stems from the individual according to his values and it involves the choices covering different life aspects. In Takaful, people participate to help each other and that includes not just financial help but many other things, such as preventing injustice against the oppressed".

Thus, participants in Takaful do not seek any personal benefit but are there to protect others as well themselves, and hence from here stems social justice. In the same vein, I3 and I4 highlighted that Takaful as an Islamic principle worked towards social justice in society.

Takaful is not limited to financial support between people in society but extends to all of life's aspects, and helping everyone in society reflects social justice and agrees with the findings of Obaidullah (2005) and Al-Alak (2010). In this regard, SSB3 indicated that Takaful would help to improve those less fortunate in a community to have a better life. FM11 explained that social justice would be better if financial institutions took more consideration of the Takaful concept: "...creating funds that consider the concept of Takaful can help to achieve development and social justice". These findings accord with Obaidullah (2005), who described how Takaful emphasises the sincerity and willingness of society to help and look after each other, based on solidarity and responsibility between participants which leads to social justice. FM6 explained that, in the past, people living in the same area had a sort of Takaful, but that this was not present today. Thus, SCIFs could adopt a Takaful perspective that considers society as a whole by assigning a particular percentage of a fund's financial returns to be given to people on need in society.

ii) Brotherhood

FM6 mentioned brotherhood as another concept of social justice in Islam and emphasises how people ask each other for help and assistance in fulfilling each other's needs. FM5 and

FM7 both stated that the materialistic side had become important, since people did not care about each other and did not use social justice concepts such as brotherhood anymore (see also Chapra, 2009; Lewis, 2010). Brotherhood differs from Takaful in that it relies on self-initiative to help others in society thereby achieving social justice. The Islamic religion supports brotherhood, and in the Hadith, narrated by Sahih Albukhari[106], it mentions that a Muslim must always support another Muslim (see Khan, 1986). In the same vein, FM4 stated that "Islamic teaching is supposed to be part of our daily life, at work, at home, in the street, everywhere", to support the brotherhood of man, reflecting social justice. SSB1 explained how brotherhood could work for less fortunate people:

> "...make this poor person rich by developing his ability to work. As the expression goes, 'Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime' and this is real brotherhood".

Chapra (2008) explains that Islam stresses brotherhood and is one of the most important moral values in society, and hence it leads to social justice. In addition, Ghazanfar and Islahi (2011) mention that brotherhood should guide the voluntary sharing of wealth as long people have more than they need. The Qur'an says "Assist one another in the doing of good and righteousness. Assist not one another in sin and transgression, but keep your duty to Allah" (5:2) (Cited by Obaidullah, 2005, p.35). In the context of this thesis, brotherhood could be reflected in the objectives of Islamic investment funds by not focusing only on financial returns but also by focusing on investing on investee companies that have a positive social impact on society.

iii) Fairness and Equality

The next Islamic concept of social justice in Islam is fairness and equality. To achieve equality, a person should be fair. In other words, a judgment cannot be fair unless it is taken according to the evidence, rather than relying on other influences, such as race or social position. FM9 described the Hajj as the main rite in Islam that demonstrated equality and

[106] Sahih Bukhari is a collection of sayings and actions of Prophet Mohammad (pbuh), and known as the sunnah.

social justice, where all people stood beside each other, rich and poor, on the same day in the same clothes, from all nations, with no differences. Also, prayer was the practice of equality and social justice, with a king praying near to a tea boy, with no difference. Islam therefore has a number of rites that reflect social justice. Farooq (2008) and Visser (2009) mention that Hajj and Prayer are two of the five pillars of Islam, which influence every Muslim to believe that people are equal, and is the foundation of social justice. In Islamic finance Lewis (2008) states that fairness is important in the Islamic religion and results in prohibiting interest or usury in Islam, because earning money from money is not deemed to be fair. SSB3 pointed out that Islam did not prohibit the disparity of wealth between people but suggested that wealthy people had a duty towards their community:

> "Islamic teaching asks for self-initiative regarding helping those less fortunate, so social justice does not mean complete fairness and equality of wealth, because this is impossible".

SSB1 shared this opinion:

> "Social justice does not mean that a poor person shares a wealthy person's money, but social justice is about making this poor person rich".

By making poor people rich, SSB1 meant, helping them to find a job or work that helped them to live with dignity and prevent them from asking for financial aid and that wealthy people were supposed to be more responsible about fulfilling social justice in society. This accords with Shujaat (2004), who states that social justice in Islam "does not demand a compulsory economic equality in the narrow literal sense of the term" (p.13). Also, according to I3 and I4, fairness and equality in Islam meant prohibiting the oppression of people and helping the oppressed to obtain their rights. FM1, FM8, FM9 and I1 also emphasised the importance of fairness and equality. For example, FM8 said:

> "In Islam, social justice is about fairness. A person in Islam must feel his humanity. All people are equal, all people have the right to work, and all people are equal before a judge. Fairness is the core of the Prophet Mohammad's message".

This accords to the Qur'an in the matter of fairness and equality:

> "We have sent down to you the book in truth, that you might judge between men, as guided by Allah; so be not (used) as an advocate by those who betray their trust" (4:105).

FM3 shared this opinion, explaining that fairness and equality must spread within society, without favouritism which is similar to Greuning and Iqbal (2008) who mention that "the Islamic system places equal emphasis on the ethical, moral, social, and religious dimensions, which seek to enhance equality and fairness for the good of society as a whole" (p.5). In addition, fairness and equality occupy a prominent place in commercial transactions in Islamic finance (Greuning and Iqbal, 2008). The interviewees identified fairness and equality as important concepts for social justice, and from the perspective of this thesis these could be used by the Islamic finance community to fulfil social justice by working as Hisba[107] (verification). Having positive screening criteria will make investee companies care about corporate governance, the environment and human rights and that will achieve fairness and equality and hence social justice.

iv) Mercy

Mercy is another concept of social justice in Islam, and includes tolerance and forgiveness. The Prophet Mohammad said:

> "The Believers, in their affection, mercy and sympathy towards each other, are like the body- if one of its organs suffers and complains, the entire body responds with insomnia and fever" (Obaidullah, 2005, p.14).

I1 explained that social justice was supposed to be part of a Muslim's life, since the Prophet Mohammad's message was "mercy for the world". FM6 clarified that Islam was the religion of justice and mercy, and that social justice meant people helped each other to overcome their problems. FM5 commented that social justice started at home and must be introduced and taught in the family first because "building a family on love, mercy and high values will lead to the presence of social justice in the community". FM4 stated:

[107] Hisba will be discussed more later in this chapter.

"Islam is based on tolerance and forgiveness. All of these things are essential for social justice". The Prophet Mohammed said: "the Muslims in their mercy towards each other are like a body; if a single part of it complains, the other parts will be affected" (see Khan, 1986). According to Greuning and Iqbal (2008), the absence of a clear governance structure for Islamic funds leaves investors at the mercy of public policy makers, regulators and Sharia boards. Mercy in Islamic funds could be fulfilled by investing in businesses that are related to helping society. An example of mercy in Islamic finance is the prohibition of Riba, which breaches social justice because of making money purely out of money, reflecting only greed. Hence SCIFs should not invest in institutions that deal with Riba in business.

v) Zakat and Sadqa

Six interviewees mentioned that Zakat and Sadqa[108] (charity) supported social justice in society. FM8 noted that the giving of Zakat and Sadqa showed generosity because it helped to take care of one's neighbours and the poor. FM7 added that Zakat and Sadqa were the most popular tools for social justice in Islam, since both emphasised giving surpluses to the needy. However, Zakat is different from Sadqa because Zakat must be paid once a year and "is a religious levy or almsgiving as required in the Holy Qur'an and is one of the five pillars of Islam" (see Hassan and Lewis, 2007, p. xviii). Sadqa does not have a limit or a certain percentage to paid (see Nainggolan, 2011) and RB1 noted that, in the past, people gave Sadqa personally but today Sadqa was carried out by professional bodies to ensure its best use thus the work supporting social justice in the community had become more regulated making it easier for people to participate. I2, I3 and I4 explained that Zakat was important but that the current practice of this Islamic pillar was not conducted in a way that showed any influence in society for example, by decreasing the number of the needy. According to Hassan and Lewis (2007), Zakat and Sadqa are related to responsibility in

[108] Sadqa is charity for the sake of Allah - not obligatory charity.

Islam, and this conflicts with a focus on profit maximisation. Farooq (2008) notes that the goal of Zakat and Sadqa is not achieved because most Muslims pay Zakat without knowing or thinking about "where it went or how it was utilised or whether it made any meaningful and sustainable impact on the life of the recipients" (p.50). Also, there is a misunderstanding that Zakat and Sadqa are just for the poor, while in Islamic law poor people can be part of eight different groups,[109] which may have nothing to do with poverty (Farooq, 2008). Nevertheless, Zakat and Sadqa are two important tools which Islamic finance can help to meet social justice requirement if allocated properly. When SCIFs paid Zakat they should be sure that they allocate it to the best place hence meeting social justice, and Sadqa should be paid to purify any income from investment in companies with haram earnings. The following section discusses if these whether concepts are part of SCIFs.

The conclusion of this section is that social justice is important in Islamic religion, and is well-known by the interviewees. That can be deduced from the interviewees' responses with regard to social justice concepts in Islam. These concepts which are identified by the interviewees are related mainly to the first and second research question[110], which aims to identify if SCIFs should have a social justice role and recognise the SCIFs' stakeholder perceptions of social justice and it's important in Islamic religion. In addition, this finding will help to answer other research question. As social justice is part of Islamic religion and because SCIFs are based on Islamic teachings, SCIFs should have a social justice focus as Islamic religion encompasses all aspects of Muslim life (see Szczepanowicz, 2011; Walkshäusl and Lobe, 2012). Thus, if social justice focus is absent in SCIFs there must be reasons that hinder social justice.

[109] Those eight groups are those who are poor, those who are needy those who are slaves to free them, those who are engaged in zakat collection, those whose hearts need to be won over, those who are in debt, the wayfarer, and those who are on the path of Allah.

[110] The research questions are: (i) should SCIFs in Saudi Arabia have a social justice role?; and (ii) What are the perceptions of SCIFs' stakeholders in relation to social justice and is social justice reflected in SCIFs prospectuses (T&Cs)?

6.2.1 Social Justice in Practice

Despite the above, six interviewees indicated that the concept of social justice was not practiced in society. FM14 explained that, although Islam required people to apply social justice in their actions towards others, this was not actually reflected in people's actions. FM1 explained that Islamic society would face problems if the teaching of Islam was not followed and I1 agreed that, if people applied, followed, and understood Islam in the right way, then social justice would be reflected in their lives. SSB1 argued that practising social justice was important because nobody opposed it but FM6 explained that, despite the importance of social justice in Islam, people did not apply it: "Islam has an inbuilt social structure, but unfortunately society does not follow it". From this thesis' perspective SSB2 said that SCIFs should look on "social justice and ethics as they are important, as well as profit, because it is like a soul in a body; you need both to live". This finding agrees with Hassan and Lewis (2007) view who noted that social justice is:

> "a result of organizing (sic.) society on Islamic social and legal precepts, including employment of productive labour and equal opportunities, such that everyone can use all of their abilities in work and gain just rewards from that work effort" (p.40).

The consequence of paying Zakat, the encouragement of charity, the prohibition of Riba (usury), and encouraging Qard Hassan are examples of Islamic social justice (Maali et al., 2006). Abu-Tapanjeh (2009), notes that an important and ethical part of every economic activity within Islam "is to provide justice, honesty and fairness and to ensure all parties their rights and dues" (p. 556)[111]. Accordingly, concepts of social justice that were discussed by interviewees should be embedded in the regulations and governance of SCIFs to have social justice impacts by SCIFs which is explored further in this chapter and the next chapter. This finding provides overall implications to the research questions that

[111] This section is related to the first research question which is: Should SCIFs in KSA have a social justice role?

SCIFs and social justice need to be linked as that might support the role of SCIFs in social justice. The next section examines social justice in SCIFs.

6.2.2 Social Justice in Sharia Compliant Investment Funds

According to the majority of interviewees, social justice in Islam involves more than just paying Zakat and avoiding Riba (usury). The different concepts of social justice could be used in SCIFs if developed properly. Damam (2012) states that SCIFs and the Islamic finance industry do not go beyond being commercial and profitable businesses and that Islamic finance has lowered its sights to merely focus on expanding its profits. The absence of social justice in SCIFs is a consequence of deficiencies in other things in KSA society.

The first is the lack of any regulations. FM1 and FM3 clarified that the regulations were not enacted for SCIFs, and FM10 thought that the regulations needed to push society to promote social justice more. This accords with Renneboog et al. (2008), who note that governmental funds exist around the world that adopt SRI practices, such as the California Public Employees' Retirement System (CalPERS) and Dutch Pension Fund for Public Employees (ABP). In addition, the UK pension regulator requires pension funds to disclose their policies with regards to SRI (Sparkes, 2001; Schwartz, 2003; Bakshi, 2007). In KSA's case, there is only one regulation for investment funds and it does not cover either SRI or SCIFs (CMA, 2013). I1 and I3 agreed that, although tools existed for increasing social justice by the government, the lack of responsibility, the absence of accountability mechanisms and the poor development of regulations have in practice caused a lack of social justice throughout society, including in SCIFs. Further, FM13 mentioned that "...the people and government could still do more to increase social justice in KSA society" and the government should adopt a social justice focus with regard to its own funds, as this would help these trends to evolve throughout the SCIFs.

The second reason the interviewees noted as to why SCIFs in KSA did not follow Islamic social justice principles was that the people focused on only their exterior religious outlook; for instance, people cared about giving some money to the poor but did not care about how this money was actually spent, so there was a kind of hypocrisy prevalent in society through focusing, for example, on paying and praying, but not focusing on the other deeper meanings of Islamic teachings such as Takaful and brotherhood. In SCIFs, there was a focus on, for example, purification[112], but not on how these were spent to promote social justice. According to Iqbal and Mirakhor (2011), SCIFs are supposed to follow all of the rules of Islam, to go beyond Zakat and Riba to cover all of social, economic and political life to promote social justice in society.

The third reason was that life had become more complicated as a result of developments in business and technology. FM8 and FM9 explained that life had become more complicated and difficult and that the services to help society overcome these difficulties were inappropriate because, as FM6 indicated, everyone was too busy and, despite the development of communication technology, there was a lack of real communication between people. SSB1 pointed out that the communication between people in the past had been much better:

> "…In the past, people in the towns were close together because they were from the same family and culture but now we have different cultures in every city".

Communication between people is a very important concept in Islam, as it is the way to understand society's needs. It stems from the Islamic concept of Tawhid (Ahmad et al., 2009);[113] where there should be a strong relationship between society and organisations,

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[112] Purification is giving part of the negligible income to charity, in order to 'purify' the investment fund revenues.

[113] "In analysing Islamic communication, the concepts of tawhid, dakwah, amar makruf nahy munkar, Qur'an and sunnah identified in previous studies were used (Ahmad & Harrison, 2008; Al-Khayat, 1997; Elbarazi, 2005; Mabaya, 1998; Masud, 2007; Mowlana, 1993, 2007; Shaikh, 2000). Tawhid is the main concept in

such as financial institutions, to be able to evaluate the level of social justice in society (Ahmad et al., 2009).

Another reason that SCIFs are failing to promote social justice as noted by two interviewees was a failure to follow Islamic ethics, as shown by the increase in corruption. FM9 implied that corruption[114] was a key issue regarding injustice and gave an example of the floods that had hit the city of Jeddah[115] twice, in 2009 and 2011, due to corruption related to the awarding of rain water drainage projects; those who had caused this disaster remain unpunished. In addition, as a result of corruption, SSB2 noted that unemployment and poverty had increased; accordingly, Islamic ethics were not embedded in society and hence in the financial sector either. The interviewees mentioned a number of societal reasons that impeded social justice in SCIFs. Because social justice was missing in all daily life, it was missing in SCIFs as well as the daily practices which are reflected in SCIFs. Social justice is part of society's religion and is supposed to be reflected in people's practices, including SCIFs.

SCIFs should promote social justice

The fund managers recognised that SCIFs had different principles from conventional ones which made SCIFs unique, with their focus on social justice. For example, FM10 said:

> "...the nature of SCIFs depends on finance by way of trust, partnership and no interest, and that leads to a lot of social justice".

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defining Islamic communication. This is theoretically correct, as the main core of the Islamic faith is the absolute oneness of God. Hence, everything and anything about Islam is centred on tawhid. In relation to tawhid, a Muslim's obligation is to follow the path that has been laid out by God. That principle leads to the concept of amar makruf nahi munkar, which is a model for communicating Islamic teachings or way of life. The third theme, dakwah, describes the strategy for communicating in Islam. The Qur'an and sunnah are regarded as the sources of reference and provide messages that should guide Islamic communication" (Ahmad et al., 2009, p.4).

[114] According to the World Audit report, Saudi Arabia was ranked 66th out of 174 in terms of corruption (E.V., 2013).

[115] The inability of Jeddah's infrastructure to drain the water and uncontrolled construction in and around the city led to a high number of flood victims. Thousands of families lost their homes, as 10,785 buildings were destroyed.

This accords with previous studies that note that the unique nature of Islamic finance that depends on profit-and-loss sharing (PLS) makes Islamic financial institutions different (Chapra, 1992; Mills and Presley, 1999; Kuran,2004; Mirakhor and Zaidi, 2007), and investors' returns depend upon the return on the assets financed by them (Karim, 2001). In the same vein, FM2 claimed that Islamic finance principles should differentiate SCIFs from conventional ones, and promote social justice but, there was only an indirect role. Indeed, SCIFs work on the following principles:

> "The five main Shariah principles that are permanent include the prohibition of riba, application of al-bay' (trade and commerce), avoidance of gharar (ambiguities) in contractual agreements, prohibition of maisir (gambling), and prohibition from conducting a business involving prohibited commodities such as pork, liquor, illicit sex, and pornography" (Szczepanowicz, 2011, p.27).

Thus, Islamic equity funds are different from conventional ones because they cannot invest in certain sectors and pay or receive interest (see Hayat and Kraeussl, 2011; Walkshäusl and Lobe, 2012; Bassens et al., 2011; Olson and Zoubi, 2008; Hearn et al., 2012) but, according to the interviewees, not paying or receiving interest is considered an indirect influence of SCIFs on social justice. This accords with Maali et al. (2006), who found that although any product in Islamic finance must follow Sharia principles, these principles currently, would not fulfil social justice as they only focused on general points but SCIFs should go beyond (Gambling et al., 1993). Two interviewees, FM6 and FM7, added that SCIFs only played a small role in social justice, and SSB1 explained that the only social justice role of SCIFs was in terms of purification. FM3 stated that SCIFs could influence listed companies to follow Islamic principles to increase investor interest in them. Studies indicate a big growth in SCIFs assets (Olson and Zoubi, 2008; Walkshäusl and Lobe, 2012; Hoepner et al., 2011) and this could help to increase the SCIFs investment universe. Indeed, FM3 explained that some listed companies refused to have interest-based loans in order to be Sharia compliant. Thus, SCIFs have some indirect role in increasing social justice.

Overall, most of the interviewees noted that the current role of SCIFs in social justice was weak; Islamic financial institutions were purely profit seeking, as FM13 stated:

> "...Sharia law has a lot of social justice rules, regulations, and suggestions and it is usually overlooked because a lot of financial institutions focus just on two elements: what we are buying and how we are buying it".

One of the main goals of Islam is to increase social justice, so Islamic teachings should be applied all by SCIFs as Sharia includes all life activities, such as prayer, manners, ethics, marriage, conducting business, financial transactions and contracts (see Lewis, 2005; Yusof et al., 2011; Szczepanowicz, 2011; Harvey, 2012; Ismail and Possumah, 2013), and the law should promote social justice (Szczepanowicz, 2011). The interviewees thought that Islamic religious teachings were disjointed from Islamic finance practices, as most social justice concepts in Islam were not applied in SCIFs. SSB2 and FM4 commented that although it was clear that SCIFs had some shortcomings regarding social justice, this was because it was still a new industry. Indeed, Ballestero et al., (2011, p.487) state that a lot of SRI investment was already established "which invest in companies with powerful environmental policies, honest practices and social guidelines inspired by moral institutions". I1 explained that the funds he invested in were focused solely on profit. The interviewees explained that SCIFs only focused on profit maximisation with no link to social justice. Thus, this section shows the importance of the role that SCIFs should play to have a social justice role[116]. The next section explores the motivations to establish, and the growth of, SCIFs.

[116] This section is related to answer the first research question which is Should SCIFs in KSA have a social justice role?

6.3 Reasons for the Growth of Sharia Compliant Investment Funds

This section will answer the research question that is related to globalisation. The focus on factors that are concerned with profit and financial returns and ignore Islamic teaching aspects and demands to establish SCIFs will indicate a globalisation influence that stemmed from the capitalism system as capitalism focused on wealth return and ignores other religious aspects in investment. The interviewees' noted that the reasons for the existence of SCIFs were: demand from investors; SCIF's profitability; competitive and market trends; and investors and religious morals.

i) Demand from investors

The most frequently mentioned motivation for starting up SCIFs was demand from investors. According to the interviewees, financial institutions had exploited this demand for religious investors and had only started up SCIFs to maximise their own profits.

In the beginning demand came from the religious background of KSA society, hosting the most holy places for all Muslims of Makkah and Madina. Also, KSA society practised Islam since its laws regulated life according with Lewis (2001). For example, FM4 mentioned that "Currently, when you start a fund, the first customer's question is, is it Sharia compliant?" Investors wanted SCIFs to invest in according to their beliefs and, as RB1 mentioned, in the past, there had been few channels for SCIFs but now people could find investments that were in accordance with their beliefs, as supply had increased as a result of the high demand. FM1, a fund manager in a financial institution that managed both conventional and SCIFs, stated that:

> "...demand was the motivation for establishing SCIFs. The proof of the high demand is that SCIFs have more investors willing to invest in them than in conventional funds".

FM7 noted that his previous financial institution had been both a conventional fund and an Islamic one:

> "The conventional fund had a long track record while the Islamic one was still new. However, the size of the Islamic fund was double that of the conventional fund due to the large demand".

This was also the opinion of two of the SSB members; SSB1 had noticed that the market had increased dramatically since the entrance of SCIFs, which indicated a high demand for SCIFs by investors. SSB2 agreed that demand had been the main motive, commenting:

> "Twelve years ago, there were not many SCIFs so a lot of people did not invest their surplus money, and the financial institutions realised that society was demanding SCIFs".

The demand for SCIFs is not surprising, since all KSA citizens are Muslims. However, as suggested by the interviewees, not all of them care about investing their money according to Islamic law, but a sizeable proportion of the population wanted to invest in Islamic finance according to Islamic law. The Islamic religion contains evidence about requiring social justice in investing is mentioned in the Qur'an in several verses:

> "there are specific injunctions that call for honest fulfilment of all contracts (5: 1); prohibit the betrayal of any trust (8: 27); forbid the earning of income from cheating, price manipulation dishonesty or fraud (4: 29); shun the use of bribery to derive undue advantage (7:188); as well as promote clarity in contracts to minimise manipulation from dubious ambiguity (7: 282)" (see Sadiq and Black, 2012).

FM6 noted Saudi society in general wants SCIFs, as society is religious by nature. Pepinsky (2012) notes that: "religious motivations are uniting consumers of Islamic financial products" (p.1). FM7 stated that the "...Islamic dimension is one of the motivations for starting SCIFs in KSA" and RB1 explained:

> "Society puts pressure on financial institutions because the society is religious and they do not want non-Sharia compliant transactions. So, as a result of this pressure, the financial institutions found themselves forced to produce SCIFs".

SSB2 agreed and mentioned that a large number of people in the last few years had been unable to benefit from the financial investment sector in KSA because there were no SCIFs or products. As SSB3 explained:

> “Because Riba is prohibited in Islam, a lot of people did not invest their money in conventional funds”.

This is similar to the evolution of ethical and SRI, which also originated from the demands of churches (Glaeser and Scheinkman, 1998; Lewison, 1999; Mallin, 2007; Solomon, 2007; Roca et al., 2010; Louche, 2010; Lewis, 2010; Forte and Miglietta, 2011; Kiymaz, 2012). Groups of people believe that investments should be based on social and ethical values that stem from religion (Kreander, 2001; Schwartz, 2003) and the first ethical investment in Europe, the Swedish Ansvar Aktiefond Sverige, was initially supported by churches, such as the Baptist Church (Kreander, 2001).

Thus, demand and religious pressure caused financial institutions to set up SCIFs. However, they did so in a capitalistic way, and turned them into profitable businesses, reflecting the Saudi Arabian financial system built on the West from globalisation and the linkage between the Saudi economy and the US economy (see Wilson, 2004; Vitalis, 2007). Financial institutions saw the benefits of starting up such funds to maximise their profit.

ii) SCIFs profitability

According to 11 of the interviewees, the performance of SCIFs exceeded that of conventional funds. FM7 explained that the Islamic investment industry was new so the chance to innovate, develop and create new products for investors and make profits was huge. FM7 stated that SCIFs’ returns and performance were higher than those of conventional funds, especially after the financial crisis, as SCIFs had been less affected by the global financial crisis than conventional funds.

Investors wanted high financial returns from doing very little work and that was what the financial institutions provided. Investors want investments to be both Sharia compliant and to provide high returns, and hence led SCIFs to focus on profit. SSB1 clarified that the number of SCIFs was increasing as customers were getting high returns. FM3 stated:

> "Investors care about financial returns because the rises in the stock market in 2002 and 2003 made people think that the stock market is a gold mine. People thought that, if I enter the market, I will double my capital" (FM3).

FM7 added:

> "Investors would not come to you if you did not offer them high returns and Sharia compliant products. From this point, I think profit comes first. Because they do not ask about the details; they ask about the returns".

This finding accords with Hassan (2002), who notes that Sharia compliant investments increased by 15% each year, and Islamic banking and finance has grown rapidly across the world (Hassan and Lewis, 2007; Dusuki, 2008; Visser, 2009; Hearnet al. 2011; Ariss, 2010); this increase could be related to the high profits earned by both the financial institutions and investors.

FM12, who had been a fund manager for over 15 years, explained that the financial institutions would not start a new fund unless they were sure that they would earn high returns for both themselves and their investors. SSB4 agreed:

> "The motivation to create SCIFs is that they provide high returns for financial institutions and for investors".

FM7 and FM8 agreed:

> "The main goal is profit. Anyone who tells you anything else is a liar. Investment is not charity; it is about making money" (FM7).

> "...first, it must be Sharia compliant and, second, it must provide a high return for investors. These two are essential objectives for any funds today" (FM8).

RB1 also agreed that the financial returns were the most important thing for the financial institutions and hence financial institutions were only looking to make a profit. As a result, profitability by SCIFs is required by investors and fund managers. This accords with Hearnet et al,. (2011) and Ariss (2010), who find that SCIFs assets have grown rapidly in recent years, as it has been a profitable business for financial institutions.

iii) Competitive and market trends

Most of the growth of SCIFs is focused on the GCC countries because it is now a competitive environment where making a profit is an important factor (Hoepner et al., 2011). FM8 shared the same opinion:

> "The market trend was our motivation to start SCIFs, especially in countries like Saudi Arabia where there is a lot of money in people's hands and there are not many investment choices for them. Also, they want Sharia compliant investments".

This trend had enlarged the investment funds market as FM4 explained:

> "…SCIFs are increasing; you can notice this in the new financial institutions, since all of their funds are Sharia compliant because this is the market".

Thus, the Sharia compliant investment fund sector has become a competitive market, as I3 and FM7 note:

> "We are in a competitive market and my goal is to have a big share of the market share in this sector. If I want to have a high market share, I must have a lot of customers" (FM7).

As a consequence, SCIFs operate similarly to conventional funds in terms of their goals to attract customers (see Olson and Zoubi, 2008), and causes them to focus on profit maximisation, ignoring any social justice aims. In the same vein, the focus on profit in the advertising of funds might be one of the reasons why investors look to SCIFs just as any other business. Indeed, Schwartz (2003) mentions that ethical investment funds should not employ emotional advertisements to influence investors to invest with them.

iv) Investors and religious morals

Nonetheless, the interviewees noted that investors did not care about social justice anymore. According to seven of the interviewees, not all investors invested in these funds because they wanted to invest according to Islamic teachings. FM14 clarified:

> "There are two types of investor. One investor who will look at the returns and opportunity and, if it's Sharia compliant, it's a plus; if not, it is still fine. The other type of investor is just looking for a Sharia compliant opportunity; he will not accept an investment unless it is Sharia compliant and also guarantees acceptable financial returns".

The focus on profit could even cause a change in the morals of investors. FM3 explained that the profit motive changed investors' views on moving from conventional to SCIFs:

> "...the first thing for investors has become high profits and some may swap their religious morals for profit. We can feel in Saudi Arabia that even investors who do not care if the company is Sharia compliant are investing in these companies because the demand for Sharia compliant companies stocks will increase its stock price".

FM2, FM4 and FM5 clarified that investors did not want social justice from the fund managers as they did not link it to investment, FM2 explained:

> "Most investors have a good view about social justice but they do not link social justice with investment".

FM6 said:

> "As an investor, my objective is to make money. As a human being, I may look into social consideration and I think nobody would mind if there is a social justice element in Sharia compliant investment with good returns. If you ask me whether investors look for returns or social justice, I think they look for returns".

In the same vein, FM1 said:

> "The returns are important when deciding whether or not to invest in a particular fund and, if it is Sharia compliant fund, that makes investors feel comfortable about their investment. Investors do not accept any loss; they want a high return but they do not accept loss".

Fund managers focus on profit when marketing funds, which causes investors, over time, to unconsciously become focused on it too. RB1's opinion was no different from that of the fund managers, as he said:

> "The funds and investors are supposed to take the social justice aspect into consideration, since it will increase their financial returns in the future".

Nevertheless, I1, I2, I3 and I4 were unusual and had a different opinion, suggesting that they, as investors, were not looking just for financial returns, but also social justice. I1 commented:

> "For me, both social justice and financial returns are important and I do not mind losing 5% of my financial returns to increase social justice".

This quote accords with Obaidullah (2005) who found that Sharia compliance was more important for some investors than just maximising their profit. I2 explained that social justice was important and that fund managers were supposed to consider it as well:

> "...as a single person living in society, social justice is important to me. For a fund manager, I think it is important to have a vision for the funds to achieve both social justice as well as financial returns".

Hence, there is a group of investors in KSA who care about social justice and want it to be part of the objectives of SCIFs. The financial institutions, however, ignore this probably because they are looking to their Islamic investment funds as only a profitable business venture and any change could reduce their profit.

According to Derwall et al. (2011), there are two types of investors. One group base their investment decisions on their social and personal values and would not mind receiving less profit if that increases social justice in society. The other group only want investments to achieve abnormal financial returns and fund managers usually only consider this group, because it is an easier way to increase their own profit. As a result, SCIFs may not have social justice objectives, as the focus is profit maximisation. The influence of the western-based system, with its emphasis on profit, was clear as FM10 said: "…we do not take into consideration social or environmental returns; financial returns are our indicator".

Ignoring social justice in investment might be as a result of the capitalistic view of investment in KSA. According to Al-Jabri (1998), globalisation has caused problems in societies maintaining their cultural identity, possibly resulting in traits such as individualism, selfishness, and social class. In addition, Gallhofer et al. (2011) explain that globalisation facilitates the transformation of developing to countries Western capitalistic cultures, as Western countries are seen to have knowledge, and individuals in less developed societies think that they must emulate the West in order to develop.

The main finding from this section is related to answering the first part of the second and third research questions[117] and shows that although SCIFs' fund managers have an understanding about social justice in Islam, social justice is not their main motivation for establishing or investing in SCIFs. Other factors, such as demand and profitability, are more important for the financial institutions to establish SCIFs and it is important for investors as well. Also, the focus on factors such as demand and profitability show that there is an external driver related to globalisation.[118] Thus, SCIFs might not focus on social justice. The next section discusses screening as one way in which SCIFs could increase social justice in society.

6.4 Screening

As positive screening is essential in this study as it could be an indicator of social justice and could improve the social justice role of SCIFs, as identified in the definition of social

[117] These research questions are: (i) What are the perceptions of SCIFs' stakeholders in relation to social justice and is social justice reflected in SCIFs prospectuses (T&Cs)?; and (ii) What are the perceptions of SCIFs' stakeholders in relation to globalisation and has globalisation influenced the focus of SCIFs prospectuses (T&Cs)?

[118] The influence of globalisation on SCIFs will be explored later in this chapter, in section 6.5.

justice in chapter one. Usually, fund performance is measured but not social justice as there are no particular methods to measure social justice, but positive screening could be used as a method, as it could contain criteria on social justice in Islam, for example, environmental[119] and healthcare[120] screening criteria. The findings from the interviews show that positive screening is not used at all by SCIFs. FM7 clarified that SCIFs could increase social justice through developing screening criteria like SRI and continued that, through improving the criteria of SCIFs, the influence on social justice would become clearer. SRI could have an influence on social justice, by including criteria that consider the environment, human rights, social responsibility and moral values (see Hallerbach et al., 2004; Renneboog et al., 2011; Ballestero et al., 2011). This section will examine the interviewees' opinion about the current screening criteria and positive screening criteria and the reasons behind the absence of positive screening.

The interviewees were divided into two groups regarding their view about current screening criteria[121] and whether these differed from fund to fund[122]. The first group thought there was a great similarity between funds, or had not even thought about it. The interviewees based their argument on the fact that no SCIFs could invest in industries that were not in line with Islamic law, and that all SCIFs had similar criteria for investment. The SSB members SSB2 and SSB3 stated that the most important objective of Sharia screening was to provide investors with an assurance that their investments complied with Sharia law. Thus, as long as the screening criteria were approved by the Sharia board, then the fund was achieving its goal of being Sharia compliant, but not of social justice. FM3 explained

[119] Invest in companies with high environmental and ecological standards.
[120] Invest in companies with products that improve human life.
[121] FM10 explained that these screening criteria for SCIFs had been initiated by Alrajhi Bank, and then developed by other SSB members in different financial institutions, which had then spread throughout all the Islamic financial institutions in KSA. It was founded in 1957, it is one of the largest Islamic banks in the world, with total assets of SR 184 billion (US$ 49 bn). Deeply rooted in Islamic banking principles, the Sharia compliant banking group is instrumental in bridging the gap between modern financial demands and intrinsic values, whilst spearheading numerous industry standards and development measures (Al Rajhi Bank, 2013).
[122] This will be examined in Chapter 7 as well.

that these criteria focused only on the criteria approved by their SSBs. FM6 was more critical and noted: "It is the same criteria across all SCIFs in our institutions"[123]. This finding is in line with different studies that explain that there are sector screening guidelines with sectors in which SCIFs cannot invest. For example, no companies in an Islamic investment fund may deal with the prohibited activities of (non-medical) alcohol, pork, gambling, entertainment, tobacco, non-Islamic financial services and armaments (Pollard and Samers, 2007; Siddiqui, 2007; Elsiefy, 2008; Chong and Anderson, 2008; Brown and Skully, 2009; Kayed and Hassan, 2011; Fasih, 2012).

The second group thought that the screening criteria for SCIFs differed from fund to fund. FM13 clarified that the screening differed according to the fund type. For example, equity funds' screening criteria were different from those of private equity funds or real estate funds[124]. FM14 was of the same opinion when he argued that there was not a 100% match across the criteria, since every SSB in every financial institution had differences of opinion, resulting in a lot of differences from fund to fund. SSB1 opined that each financial institution had its own filter rules for SCIFs, for example, the Alrajhi financial institution screening criteria were different from the Dow Jones screening criteria; it depended on each institutions' SSB members and how strict they were about the criteria. FM4 explained further showing that financial institutions cared more about the financial criteria than any other criteria:

> "For local equities, we use S&P screening criteria; for international equities, we use DJ criteria because both are different. S&P depends on the market cap for financial criteria by dividing the debt/company market cap, whereas, in DJ, you divide the debt/total assets of the company. This makes a difference for us. For example, if the market rises, we are good, but if the market falls, that means the market cap falls so some companies will no longer be Sharia compliant" (FM4).

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[123] The findings in Chapter 7 show that the screening criteria do differ from fund to fund, and that the difference is sometimes very radical. That might affect the social justice, as will be discussed in the next chapter.

[124] According to the SCIFs prospectus in KSA, the screening criteria differ, even for equity funds (for details, see chapter 7).

From the interviewees' replies, it seems that there were no differences between SCIFs on industrial screening criteria, but there were between the financial screening criteria. The difference was how strict each SSB wanted to be about it. Accordingly, SCIFs have a lack of social justice, as they do not care about social justice concepts in Islam and do not have any positive screening. The financial institutions use filters that are less than strict and hence this increases the number of investee companies they can invest in. Overall, most of the interviewees thought that the screening criteria used by funds did not differ greatly, and none thought that any criteria focused on social justice.

Positive screening

Positive screening criteria could be a way of supporting social justice in SCIFs. However, most of the interviewees did not know what positive screening meant, with only five knowing what it meant and 17 being totally unaware of it despite the interviewees being very knowledgeable about SCIFs. It was surprising to find that even ten interviewed fund managers did not know anything about positive screening. Such an ignorance of positive screening could be one of the reasons for its absence in the Sharia compliant investment industry.

FM6 was one of the few to know about positive screening and explained that his understanding came from the ethical funds in Europe, and FM9 thought that SCIFs were also like ethical investments, commenting, "We never call ourselves an Islamic company. We are an ethical company; Islam means ethics". This accords with Schwartz (2003), who notes that the screening criteria used by ethical investments in Europe include such criteria as not investing in industries such as tobacco, alcohol and weapons industries. The exclusion of particular industries is called negative screening (see Siddiqui, 2007; Hassan and Lewis, 2007; Derigs and Marzban, 2009; Humphrey and Lee, 2011; Ballestero et al., 2012), and SRI funds may be similar to Islamic funds because they have a religious and ethical basis (Glaeser and Scheinkman, 1998; Lewison, 1999; Kreander, 2001; Scwartz, 2003; Mallin, 2007; Solomon, 2007). Indeed, all religions are similar in terms of their values and ethics and thus Sharia compliant investment funds may be no different from other religious based funds such as the Ave Maria catholic investment funds[125] (Avemariafunds.com, 2014). However, SCIFs seem to only set minimum criteria of negative screening, to be Sharia compliant.

The interviewees' opinion about positive screening was positive as FM6 commented:

> "...positive screening has criteria that support social justice. Everybody wants to promote society to have a better life and one way is by spreading social justice".

I1 said:

> "SCIFs are supposed to use positive screening to increase social justice. If the fund manager tells me that they want to take 5% of my returns for social activity, I will not refuse. I believe also that many people will participate in this fund because we are an emotionally religious nation".

This accords with Ferruz et al. (2012) who found that, in positive screening, there was a focus on non-financial matters, and investment in companies that were in line with the values that society considered (Humphrey and Lee, 2011; Ballestero et al., 2012), such as corporate governance or environmental protection (Renneboog and Szilagyi, 2011; Becht et al., 2010; Renneboog et al., 2011) and that is important for social justice.

The ignorance about positive screening may indicate that most SCIFs managers are not looking to develop their funds' criteria and fulfil social justice objectives. Three fund managers implied that they knew the difference between positive and negative screening, but even they misunderstood the term. For example, FM9 mixed positive screening with

[125] The fund objective is to seek investment in "long-term capital appreciation from equity investments in companies that do not violate core values and teachings of the Roman Catholic Church" (Avemariafunds.com, 2014).

not lending to companies that caused damage to the environment. FM6 mentioned several negative screening criteria as if they were positive screening criteria and stated:

> "I think that positive screening and SCIFs must be a hybrid to gain a better version of positive screening. Quite a few things are similar in positive screening to what we like to do in terms of qualitative screening, such as not investing in tobacco or alcohol. There is a lot of synergy between the SCIFs screening criteria and positive screening criteria because the latter makes SCIFs far superior".

Another example was FM8, who explained that his financial institution took into consideration positive screening, not from an investment fund point of view but from a banking point of view, by not providing finance to companies that did not take into consideration environmental standards, such as cement companies. FM9 explained that the institution he worked for used positive screening because it did not invest until it had reviewed an investee company's activities very carefully to ensure that it was not breaking Sharia law. Thus, the interviewees were confused between positive and negative screening; negative screening is avoiding investing in certain companies, positive screening is about actively looking for companies with positive attributes. Kreander (2001) explains that positive screening also focuses on choosing companies with values that comply with financial institutions' criteria and then engaging with them to improve these objectives. However, this does not appear to be happening in KSA and indeed, some of the fund managers misunderstood positive screening totally, possibly because they were working in financial institutions that provided both conventional and SCIFs. As a result, their main focus was profit maximisation and negative screening and not fulfilling the Islamic concepts of social justice that could be applied through positive screening. The next section examines why this is so.

Reasons for Not Using Positive Screening

i) New Trend in Industry

Beside ignorance about positive screening, 10 of the 15 fund managers, who stated that they did not use positive screening, blamed the industry, as it was still new. For example, FM2 explained:

> "...positive screening is a new trend in the market - investors in this industry have recently started talking about this so it might start to take off now".

Globally, the UN Principles for Responsible Investments (PRI) set up 2005 works for the betterment of society and to increase social justice (UNPRI, 2013). FM3 noted about not using positive screening that, non-financial criteria were unimportant so financial institutions paid it little attention and focused on financial screening and ignored other aspects. FM3 also noted that investors did not mind investing in a company that caused environmental problems if it was Sharia compliant, especially if it provided a high return. This is a major contradiction in the sense that investors want funds to be Sharia compliant and provide high returns but do not care about the environment despite their Islamic principles, this shows ignorance about important aspects of the Islamic religion. Fund managers should thus support positive screening as part of their Islamic instructions and have a concern for social justice.

ii) Lack of Awareness

The lack of awareness about positive screening was another one of the reasons for its absence in KSA (SSB2). Fund managers blamed investors as FM4 stated that "Because of a lack of awareness, investors cannot see why positive screening is beneficial". FM14 noted that Western countries' investors might be more conscious of positive screening because of better developed investment education but, in the Middle East, there was no such education. In addition, RB1 mentioned that, first, these criteria must be part of the people's culture and that people always resisted anything new at the beginning: "...there are things that are good but ordinary people reject them due to ignorance". FM13 also mentioned that financial education played a role in the lack of awareness of positive screening among fund managers and investors, as RB1 said "...People oppose what they do not know, so it is important to build awareness in society", and FM13 stated:

> "...if you look at a mature market today -50 years ago, they sort of used the same space where we are today, not focusing on positive screening. The reason why they are more advanced or focused on these sorts of criteria in investment is because of the level of education".

FM14 mentioned that the main drive for ethical investment in the West was ethical investors themselves, and ethical standards, which made positive screening more visible. In some Western countries the importance of education about Islamic finance is recognised, for instance, the UK is considered one of the leading countries for Islamic finance education (Hoepner et al., 2011) and thus, might have the expertise to develop the industry. In this regard the first green Sharia compliant investment fund was launched in the UK in 2009 (Lewis, 2010). Investors' awareness was important as, for example, there are three investor networks the IIGCC (Institutional Investors Group on Climate Change) in Europe, the IGCC (Investor Group on Climate Change) in Australia and New Zealand, the INCR (Investor Network on Climate Risk) in North America and UNPRI which presents a voluntary framework for investors to include environmental, social and governance (ESG) issues into their decision-making (Sørensen and Pfeifer, 2011). These networks enhance the dialogue between investors and the policy makers. These could put pressure on funds to adopt positive screening. The absence of any influence leads to a focus solely on profit maximisation.

iii) Regulators

Seven interviewees stated that the regulatory bodies in KSA were to blame for the absence of positive screening. FM4 explained that, in Europe, standards existed to ensure that, for example, manufacturing companies did not harm the environment. The absence of regulations from regulatory bodies was one of reasons that did not help SCIFs develop positive screening criteria, as SSB3 mentioned:

> "...for instance, one criteria of positive screening is to take into consideration the employees' work life balance, so it is impossible to evaluate this without standards or a way of measurement".

SSB4 agreed, commenting: "...it must have the support of the government from the beginning to gain trust from customers". FM1, FM2 and FM15 also stated that the regulatory bodies to needed intervene as well as FM4 who explained:

> "...positive screening must be regulated by SAMA, CMA and the Ministry of Commerce. We cannot do it just by ourselves; we do not have the power to influence companies to change their practices".

FM12 explained that regulations would help SCIFs to apply positive screening criteria:

> "...starting new regulations by the government will help SCIFs to fulfill the positive criteria".

According to Ballestero et al. (2011), to obtain reliable information regarding social justice issues, it is important to have reliable, dependable organisations. It could be independent or governmental, to help establish regulations; for example, Experts in Responsible Investment Solutions (EIRIS), an independent research organisation in the UK fulfils this function for SRI investors. The KSA regulatory bodies should act to do more to support social justice in society, and provide the citizens with methods for achieving "the highest possible perfection according to their respective aptitude" (Fasih, 2012, p.98) and that will help to fulfil social justice.

iv) Increase Investment risk

FM5 agreed that positive screening would increase social justice in KSA but the downside was that this would increase the investment risk for investors because many current Sharia compliant investee companies would be eliminated. FM8 added that the new criteria might not be attractive in terms of their financial returns and is similar to the findings of studies on SRI, that indicate that SRI funds are unable to produce an efficient, diversified portfolio

(Hallerbach et al., 2004; Hong and Kacperczyk, 2009; Statman and Glushkov, 2009; Humphrey and Lee, 2011). However, according to a study by Jansson and Biel (2011), SRI funds might bring lower returns in the short term but higher ones than conventional funds in the long term. Also, some studies that explore SRI investment funds, compared with conventional funds, show that SRI might be financially motivated (e.g. Bauer et al., 2005; Kreander et al., 2005). Accordingly, positive screening could be a way of obtaining high financial returns as well as promoting social justice in society. Once positive screening has the support of financial institutions social justice may occur[126]. The next part of this chapter discusses the role that globalisation has played in preventing a social justice focus in SCIFs.

6.5 The Effect of Globalisation

According to the interviewees, the Saudi Arabian financial system is based on the Western financial system; fund managers, investors and regulatory bodies operate under this system, as the global banking and financial system is based on conventional finance, not Islamic finance. KSA financial institutions have spread across the globe to develop the country and its trade with Western countries. KSA cannot avoid the West because economic globalisation is now an unavoidable reality (Chand and White, 2007; Dwyer and Roberts, 2004). The economic globalisation of KSA with the harmonisation and convergence of the world's financial system (Chand and White, 2007) has impacted on KSA society. All of the main stakeholders of Islamic finance may have been influenced by globalisation, including fund managers, Sharia supervisory board members, investors and regulatory bodies and this chapter examines whether this is the case.

[126] As social justice role by SCIFs is related mainly screening criteria, from this study's perspective (see the definition of social justice in chapter 1). This section identifies that there are several reasons for not having a social justice role, thus this section related to the first and second research questions.

Globalisation in General

All the interviewees agreed that globalisation had influenced KSA society in different ways as summarised by FM8 when he said:

> "The overall view is that, yes, globalisation affects us. It increases the opportunities and it increases the greed and selfishness".

FM10 noted that the world had become a small village, so it was a fact that KSA society would be influenced and affected by globalisation. A clear example of globalisation's negative influence was the 2008 financial crisis that affected the whole world, including KSA. Some interviewees thought that most people did not take globalisation seriously; for example, FM7 said:

> "If you are talking about ordinary people, they do not know about it. They just live with it, without taking it into consideration".

The fast pace of change in the world led FM1 to describe globalisation as a "shock", and added that people always looked at the negative side while the positive impact usually exceeded and compensated for this. FM7 noted: "…the Prophet said: Wisdom is the believer's goal; where he find it he has the right to use it", and thus, he thought that it was important to learn from globalisation. Also, FM6 identified that "…it is important to see globalisation from a positive stand and get the best practices that will improve society". FM7 commented that a person must evaluate globalisation as if "…I can use it for my benefit and sometimes I have to make up my mind before going ahead". In addition, SSB3 clarified that Islam did not have a problem with globalisation, since Islam supported open markets, but that Islam added a framework to increase social justice and ethics. I3 indicated that the negative influence of globalisation in terms of social justice was limited, since people were aware of globalisation's negative side and so could differentiate between justice and injustice. According to the interviewees, there was an acceptance of globalisation, as Islam promotes tolerance towards all people, but the important thing was how to use globalisation to benefit society and fulfil social justice. However, some of the interviewees thought that globalisation would be good to increase social justice by SCIFs because globalisation impacts KSA investment; culture; technology and education.

i) Investment Opportunities

The SCIF industry has become internationally well-known and is now supported by large investment institutions around the world (Hoepner et al., 2011), although not for supporting social justice. Eleven of the interviewees explained how globalisation impacted on fund investment. FM3, FM5, and FM10 explained that globalisation influenced fund investment practices since it opened up the channels for international investment. FM3 said "Globalisation might have a positive impact if we learn how to invest from developed countries like the US and UK". FM8 agreed, stating that globalisation:

> "…eases investment through openness. The choices are open now in all directions and at any time. As a fund manager, I have to evaluate every opportunity and decide which one is best. Also, the level of transparency has increased and this is a revolution in itself".

FM4 emphasised that globalisation plays an important role in increasing the investment awareness between fund managers and investors through the development of regulations of investment funds. Thus, globalisation could help SCIFs to use positive screening, for example. FM6 agreed that globalisation has had a positive impact on investment:

> "Here in Saudi Arabia, we can learn from the mature market. Learn what standards we need, how to invest, how to improve transparency, and other stuff. Investment management has a lot to learn from international investment".

FM11 clarified that capitalism and globalisation helped the variety in investment funds in financial institutions and, in addition, people learned from their experience of investment, which would help to develop the KSA investment funds and as RB1 explained globalisation helped to spread Islamic finance internationally.

FM6 agreed that globalisation offered more benefits for the investee companies, commenting:

> "The investee companies have become more open; they have learnt that they have to be open to the market and exchange feedback with different parties. The investee companies know that they have to share the information and tell investors what they are doing".

ii) The cultural impact

According to five of the interviewees, one of the positive influences of globalisation on social justice was contact with other cultures. FM3 and FM4 noted that people in Saudi Arabia had become more accepting of different cultures since they had started to realise that they could not live in isolation. RB1's opinion was that the positive impact of globalisation on KSA's social justice was that people could learn from developed countries how to improve social justice.

FM13 stated that the West itself was also influenced by eastern culture, particularly the Islamic financial industry, as he stated:

> "Will Sharia impact on the global economy? I think it has. For example, you can find Islamic banks in the UK. In Australia, they have started to change the regulations to launch Islamic banks there. I think the last financial crisis had a positive impact on Islamic finance and I can see improvements. I think we should support this because, the more we deal with the West, they will come to know us better".

RB1 agreed:

> "The West has started to use Islamic finance because they know that most Muslims want to invest according to Islamic law and, in addition, have a share of the Islamic finance market that has started to develop in the Middle East".

Having a relationship with different cultures is important in Islam and globalisation eases this interaction. According to Held and McGrew (2003), globalisation shrinks the distance and increases the speed of social interaction worldwide, reducing cultural differences between nations, and can help to fulfil social justice for world nations. However, this may only serve imperialistic powers (Said, 1993), and for example, make the investment objectives the same as in the West even if it does not fit with the culture. Thus, SCIFs should focus on Islamic concepts to align culturally with KSA society.

iii) Technological impact

The impact of technology was the third positive influence of globalisation, as mentioned by seven interviewees. Globalisation is well established because technology has facilitated the development of fast communication systems between nations (Zalloum, 2009; Held and McGrew, 2003). FM5, FM14 and FM15 clarified that interacting with the rest of the world helped KSA to use technology for its development. Technology helped the exchange of information for Saudi financial institutions. Nevertheless, Said (1993) highlights that information and technology can help to control people in powerful autocratic countries. At the same time, technology has an impact on the economy, as FM6 said: "…I think globalisation impacts on Saudi Arabia positively in terms of economic growth", while FM1 explained that globalisation increased subscribers to investment funds as it can be done through the internet. FM13 explained that, since a country like Saudi Arabia engages in extensive business with Western countries, it will influence society in terms of its economic development, and help people to exchange ideas and adopt new practices. FM3 shared the same opinion, as he said:

> "The positive side is also that we can learn good ideas from the West in terms of business and social life".

FM6 noted that globalisation had an important impact on business. He commented:

> "Globalisation has a wide positive effect, especially in terms of information. It makes it easy to access all types of information, that can help to improve business, especially at the macro level".

Held and McGrew (2003) note that globalisation has grown the global economy creating a healthy, easy environment for trade between nations. Conversely, Dwyer and Roberts (2004) explain that globalisation has caused some developing countries to just become followers of developed countries, which may affect the practice of KSA Islamic finance and social justice negatively.

iv) Education

Another influence of globalisation is education, as emphasised by FM6: "…It helps Saudi Arabia to improve education" because it improved the curriculum as well as enabled students to go abroad for higher education. FM6 held another view, explaining that the influence of Western culture would become clear for the next generation, who were currently studying abroad:

> "…it is not affected yet but there is a lot of desire that actually it will have an effect, because many Saudis go abroad to study and they notice how life is there. That will have a positive impact" (FM6).

FM11 noted that acquiring an education in developed countries played a vital role in people exchanging views and learning. The same opinion was echoed by RB1, I1 and I2, who indicated that people would become more open and educated. FM11 indicated that learning English was important, and FM6 mentioned:

> "…today, it will be disappointing if you find a Saudi from the younger generation who does not speak English".

The interviewees realised that education and social justice were related to each other because education enhanced development and, at the same time, improved social justice; as FM8 explained, "Globalisation and education make people start to be aware of everything". However, education finance in Western countries could result in different values and goals, and a decrease in social justice. Gallhofer and Haslam (2003) note that the educational system in developed countries usually ignores social problems, focusing instead on helping businesses to make a profit. Many fund managers of SCIFs in this thesis had studied finance and business in developed countries with its focus on profit maximisation. The educational system in KSA suffers from the same issue, it has been exported from these countries.

It is clear that some interviewees believed that globalisation was a good factor; they perceived globalisation as an opportunity to improve society, but that was not reflected in the objectives of SCIFs as will discussed in the next section.

6.5.1 The Negative Effect of Globalisation on Social Justice

On the negative side of globalisation, 14 of the interviewees noted that globalisation impacted on social justice negatively. SSB1 explained that globalisation affected people because Islamic social justice concepts had disappeared from society and had been replaced by principles that did not consider social justice. The interviewees indicated that there were some concepts of globalisation that had been imported that were not Islamic and that society had become: selfish, workaholic and consumerist. Globalisation influenced culture and education negatively as well, and these might in turn influence social justice.

i) Selfish, workaholic and consumer society

In term of selfishness FM7, SSB2, I1, I2 and I4 noted the increased greed and selfishness, aligned with poverty and unemployment. FM6 noted other practices of globalisation, such as becoming workaholics, which were not in line with Islam because they could make people ignore social justice objectives. A further negative influence explained by FM8 was that KSA society was becoming a consumer society:

> "…I hope that, in the next few years, our society will start to participate in the country's development rather than just being a receiver of services and consumer of products".

FM5 noted, globalisation made people busier and life more complicated and FM12 implied that people in KSA society now thought about money and self-interest without considering other aspects. Thus, social justice is no more important as a result of globalisation.

ii) Education

The afore mentioned negative influences of globalisation may be a consequence of the capitalistic ideas being taught in KSA universities, as SSB2 noted:

> "...in the first accounting level, the student learns that the main objective of a company is to maximise its profit without mentioning that this must be achieved according to Islamic teachings".

Education in finance and accounting is based on translated books from developed countries such as the USA and UK. These books fail to promote the values of social justice, and focus purely on profit maximisation (SSB2). Accordingly, there is a failure to emphasise social justice values.

iii) Culture

Culturally, the fund managers in KSA, according to five of the interviewees, were also influenced negatively by globalisation due to their sole focus on profit. FM7 shared the same opinion, commenting:

> "My understanding of globalisation is openness in order to enforce some ideology upon people to be just followers or slaves. In the end, it depends on the society's culture".

In this regard, Held and McGrew (2003) explain that globalisation has always been associated with the destruction of cultural identity, as Western countries standardize versions of their cultures. Gallhofer et al. (2011) explain that there are ambivalent points of views on Western culture in the Islamic world, where Western countries are regarded as developed and must be emulated in different scientific fields but are also seen as lacking in spirituality, unlike the Islamic world. Thus, mimicking Western investment culture could result in the disappearance of social justice from SCIFs. Said (1993) notes that developed countries use information hegemony to control developing countries. As developed countries own the information and financial resources, they spread their views, standards and identity of living. As a result, developing countries are influenced by a way of life that may be unsuited to them affecting social and cultural issues.

Globalisation's Negative Impact

There were several reasons with regard to why globalisation negatively impacted on society that was addressed by the interviewees. The first reason was the belief that Western countries were the best at everything. People in the Gulf area were very respectful of Western products (FM10), even in terms of expertise, they preferred things from developed countries, including in the Islamic finance industry. That was because people in KSA believe that anything Western must be better by default. FM9 noted that KSA society had become a follower of, or controlled by, the Western developed countries. FM9 commented:

> "We are dominated by other countries; we do not manage ourselves. We do not have freedom of choice, intellectual property, or human rights. We have experienced the bad side of globalisation, like class in society".

This accords with Held and McGrew (2003), who explain that globalisation has caused the obliteration of developing countries identities, as Western countries export versions of their own cultures and want them to fit in to other cultures as well. Consequently, some interviewees attacked globalisation such as FM7 who noted:

> "Globalisation has the problem of forcing nations to follow the standards of particular countries. It is pretty early to say if we have been affected or not. What is going to decide this is our position among the leader countries; are we going to be followers or followed? However, it has opened up a lot of investment channels, but people are not supposed to have a deficiency in their view of the overall picture".

FM9 also criticised the current role of globalisation:

> "I am against capitalism and globalisation because definitely it is of no advantage to us to be part of it. I believe that they are the main ways for developed countries to dominate the world. Market openness is not to our benefit. On the other hand, it is to the benefit of Western countries. Why do they give themselves the right to come and invest in my country according to their terms and conditions?"

FM3 noted that, in terms of investment, globalisation worked for Western interests, including Islamic investments, for several reasons:

> "...first, there is capital that wants to invest in SCIFs. Second, investment in the West will be better for Sharia compliant assets because, in countries like the UK, they have better regulations. They have laws to protect investors, and they have experience. They can use financial engineers to change any conventional investment into a Sharia compliant one better and faster".

This accords with Hoepner et al. (2011) who note that Western financial institutions work to attract Sharia compliant investors by establishing Islamic windows that provide SCIF.

The second reason was that the society was not following all Islamic teachings. SSB1 defined the issue in practice, as Muslims were not applying Islamic teachings in their daily life and that was reflected in SCIFs. The focus on material things has increased as a result of globalisation, as FM7 noted, globalisation affected social justice and caused people to abandon Islamic teachings. He explained:

> "Globalisation has a negative impact on society and on social justice because, as a result, we are not following the Islamic teachings on social justice".

Islamic teaching asks people to be moderate without engaging in excessive spending and also to be generous to poor people. In the same line, Dusuki (2008) notes that Islamic teachings are concerned with all aspects of social justice to solve social issues. As a result, it is important for SCIFs to play their part in promoting social justice objectives.

FM3 indicated that people should gain as much benefit as possible from globalisation without breaking Islamic teachings, commenting:

> "We have to seek not to break the rules and Islamic concepts of social justice and, at the same time, try to get the maximum benefit from this openness of globalisation".

There were debates about globalisation between the interviewees. The focus on profit was one of the reasons for the lack of social justice, as economic globalisation depended on capitalism which focuses on maximising profit. As a result of the penetration of this approach in society, it has affected the focus of SCIFs, as suggested by the interviewees. There was not an outright rejection of globalisation, but a view that it should be used to fulfil social justice objectives. Thus, globalisation has positively and negatively influenced SCIFs but the negative influence was more influential and as a result social justice disjointed by SCIFs[127]. The following part of the chapter discusses SSBs, investee companies, regulatory bodies and investors' roles in the SCIFs industry and how these are influenced by globalisation.

6.6 Role of the Sharia Supervisory Board

This section explores the role of Sharia Supervisory Board (SSB) members in SCIFs and whether they are influenced by globalisation which as a result has influenced the lack of focus on social justice.

SSBs Members are Important for SCIFs

Some interviewees noted that SSB members played an important role in SCIFs' operations stemming from their religious power. According to eight of the interviewees, the impact that SSB members have with regard to what they do for SCIFs in financial institutions is due to their power to change and amend the rules (SSB2). For example, FM1 described SSBs' authority as "unlimited power" because they could either reject or approve any transaction. He explained that the scholars' opinions had to be followed, even if the fund managers were unconvinced about the wisdom of these. FM6 noted that:

> "They have a significant influence over everybody in the institution. The SSB members have the power not to accept or to refuse any product or transaction that is unclear or seems uncertain in any way".

[127] This section is related to answer the third research question.

FM2 and FM3 agreed with this, mentioning that the SSB members were superior to the fund managers and played an important role in making all the decisions. FM5 stated that the SSB members were "above everyone else in the institutions" even the CEO (FM7).

FM4 explained that the SSB members are important because they could access any file at any time in order to audit or investigate it, and they had religious knowledge and hence power, given by society. Thus, confidence is delivered to Islamic financial institutions' investors of SCIFs through the use of Sharia Supervisory Boards (SSB) (Grais and Pellegrini, 2006; Masood et al., 2011). Walkshäusl and Lobe (2012) note that the power of the SSB members stems from their responsibility for reviewing all transactions and offering assurance to the public that Sharia compliant investment funds invest in accordance with Sharia guidelines. Thus, SSBs are an important stakeholder of SCIFs that hold power and knowledge that could fulfil social justice objectives.

SSBs Members are Not Important for SCIFs

FM8 expressed his perception of SSB members' roles, pointing out that there was a difference between the theory and reality:

> "Theoretically, they have full authority to do whatever they wish without any objection from the fund team. In practice, they do nothing".

Szczepanowicz's (2011) explains theoretically the work of SSBs:

> "…certifying permissible financial instruments through fatwas (ex-ante Shariah audit); verifying that transactions comply with issued fatwas (ex-post Shariah audit); calculating and paying zakat (a tax on wealth) to charity; disposing of non-Shariah compliant earnings; and advising on the distribution of income or expenses among shareholders and investment account holders.The Shariah Supervisory Board also issues a report to certify that all financial transactions comply with the above mentioned principles" (2011, p.28).

According to FM8, SSB members did not devote their full efforts to improving the SCIFs industry[128] and had lots of work to do and required them giving enough time and effort to each transaction, which they did not do to fulfil social justice.

There were differences between the interviewees' responses and the literature, possibly due to the lack of a clear job description for SSB members provided by the regulatory bodies or financial institutions in defining their roles. The next part of this section discusses seven different topics regarding the SSBs' role raised by the interviewees: (1) introducing screening criteria; (2) developing screening criteria; (3) monitoring SCIFs; (4) the role of Sharia committee; (5) SSB members on too many boards; (6) their knowledge of finance and Sharia law; and (7) the influence of globalisation on SSB's roles.

6.6.1 Introducing Screening Criteria

All of the interviewees acknowledged the significant role played by SSB members in establishing SCIFs' criteria in financial institutions and that they had a big role to play and that the role of the SSB members had been developing for nearly 20 years, as SSB1 noted:

> "...SCIFs' screening criteria were suggested and discussed in detail for the first time in 1994 by the SSB members of Al Rajhi Bank and that marked the beginning of Islamic and SCIFs in KSA".

SSB3 explained that the SSB members had played an important role in the financial institutions when SCIFs first started:

> "...the Sharia scholars introduced the criteria and standards for investing in companies that do not use Riba heavily and this was the spark for starting Islamic finance in general and SCIFs in particular".

The screening criteria for SCIFs can be divided into two main groups. First, FM3 explained that the SSBs focus on a company's sector or activity and that it must be completely Halal:

[128] These reasons will be discussed in detail in sections 6.6.1 to 6.6.6.

> "Regarding a company's activity, if the company is linked with hotels, it is Halal, so we can invest in it but, if they serve alcohol, it will be excluded immediately since part of its revenue is coming from a Haram source".

This is in accordance with other studies that mention that SCIFs cannot invest in prohibited industries in Islam (Pollard and Samers, 2007; Siddiqui, 2007; Hassan and Lewis 2007; Elsiefy, 2008; Chong and Anderson, 2008; Brown and Skully, 2009; Kayed and Hassan, 2011; Fasih, 2012). Second are financial screening criteria. FM1, FM3 and FM5 explained that the SSB members seemed to focus on financial criteria rather than any other criteria. FM3 noted:

> "They focus on financial criteria[129] very strictly and, even if the ratio is slightly up, they do not include the company (in the portfolio) because the ratio means the maximum".

This is in accordance with Siddiqui (2007) who notes that SCIFs consider the financial screening criteria in order to purify the funds from unlawful transactions according to Islamic law. But SSBs did not set criteria about social justice despite the fact that this is part of Islamic law. Siddiqui (2007) notes that the third level of screening after industry and financial screening involves investing in industries that benefit humankind and the community to promote social justice (Siddiqui, 2007). Thus, SSB members did not help SCIFs to increase social justice, hence, they should establish screening criteria that encourage social justice.

6.6.2 Developing Screening Criteria

Develop Screening by SSBs Members

Four interviewees thought that SSB members should not work on developing screening criteria at all. FM6 thought that suggesting and applying new criteria should be structured

[129] There are financial screening criteria according to Islamic law for SCIFs. For example, the Dow Jones financial criteria includes: (i) the total debt divided by total assets must not be equal to or greater than 33 percent, (ii) the accounts receivable to total assets must not be equal to or greater than 45 percent and (iii) the non-operating interest income must not be equal to or greater than 5 percent (Hassan and Lewis, 2007).

by the institution itself first and that the SSB members could give their opinions later. FM4 emphasised this point also, commenting:

> "Development is the financial institution's mission and, if we want to develop new criteria, we have to present it to the Sharia supervisory board members after finishing it in order to seek their opinion".

Nevertheless, it may be important to involve SSB members' right from the beginning because, as mentioned earlier, SSB members have knowledge of Islamic law and have the power to enforce this. Szczepanowicz (2011) explains that Sharia scholars in financial institutions are competent and knowledgeable, thus, financial institutions should use their knowledge in developing products, but some interviewees disagreed, such as FM9, who offered a negative perspective regarding the focus of SSB members on developing screening criteria. He stated:

> "They focus on "Fiqh Al-Moa'mlat".[130] I do not approve a lot of things they decide and I think all of the criteria need to be looked at again. The problem is that there is no creativity...The SSBs are weak in terms of economic knowledge and public life knowledge".

In the same vein, FM14 mentioned that "I know some scholars walk away from financial institutions because they are unhappy about what they are doing". Sharia compliant investments funds did not just need Fatwa "opinions" but also needed to develop all aspects, as FM4 noted, current screening criteria had existed from the very beginning of SCIFs. The SSB members should play more of a role in developing the fund's screening criteria to fulfil social justice.

[130] It "presents a framework for conduct in the civil arena. It deals in part with economic functions in an Islamic society but not comprehensively with factors impacting upon economic behaviour since it is concerned solely with legal relationships between members of the society. Under mu`amalat, any action that is not specifically or generally described as prohibited or haram automatically becomes permissible or halal". http://www.islamic-finance.com/item40_f.htm (accessed 21/8/2012).

Reasons for Not Developing Screening Criteria by SSBs Members

The SSB members interviewed tried to defend themselves, and SSB1 clarified that social, ethical and environmental criteria might be the next stage in developing Islamic investment. However, it was interesting to find that all the interviewees agreed that there was never a suggestion that SSB members considered social justice in screening, including SSB members themselves, for several reasons. The reasons for not developing screening criteria by SSBs members included: a lack of priority; a focus on negative screening criteria; and the use of Western indices.

i) Lack of Priority

FM13 explained that the main reason for not developing screening criteria was its lack of priority. There were still more important issues than focusing on such criteria; he commented:

> "The Middle East is an emerging market. Historically, emerging markets have very much focused on economic development and issues like poverty, education and so on".

FM12 noted that the SSB members in his institutions had never suggested any screening criteria related to positive screening or social justice. Accordingly, financial institutions would not consider positive screening criteria and would continue to focus on the current negative screening criteria, as long they maintained high financial returns for investors and themselves. The issue regarding SCIFs was that the SSB members had the power to change this, but failed to use their power to do so.

ii) Focus on Negative Screening Criteria

One of the reasons that impedes the SSB members from developing new positive screening criteria is that they only focus on current screening criteria. SSB3 had this attitude, stating that his job was to audit the institution's transactions rather than develop any standards or criteria. Possibly SSB members should not wait for the financial institutions to ask them to develop or suggest changes to criteria to meet social justice objectives but should be proactive themselves. SSB1 was rather oblivious of this and explained that there was no need to develop positive screening:

> "...there is no proof that investee companies are harming the environment or society so, unless there is proof, it is hard to require something like these criteria from any company...we have to make social justice practices part of society's culture rather than increasing the funds' screening criteria".

This seems to be an excuse to escape from any responsibility by commenting that there was no proof that investee companies harmed the environment. However, this is not correct because for example, Yamamah Cement company[131] caused environmental pollution that affected the people in Riyadh (Damam, 2006). In the same vein, Ma'aden Company[132] caused health problems to the people of Mahd Aldahab city (Alahmadi, 2011). According to Islamic law, the focus should always be to look for the best for society. Indeed, there is an increasing interest in the issues of sustainability and social responsibility in SRI funds. A rising number of fund managers invest by taking into consideration the societal consequences of the companies in which they are investing (Hallerbach et al., 2004), indicating that there are companies that harm society. As a result, the SSB members should be more aware about their investee companies' negative influences on people, the environment, and health and should care more about helping their funds in a way that can fulfil a social justice role by insisting on having positive screening criteria.

iii) Western Indices

In addition, according to the interviewees, most funds currently depend on using screening criteria of Western index providers, such as the Dow Jones. FM6 noted:

> "...the SSB members' role in screening criteria is not direct. Until very recently, the Dow Jones screening criteria were the most famous criteria, in my opinion".

[131] Yamamah Cement company is one of the listed firms on the Saudi stock exchange that is Sharia compliant.
[132] Ma'aden company is one of the listed firms on the Saudi stock exchange that is Sharia compliant.

The Dow Jones Islamic Index (DJIM) was the first Western Sharia screening index to be applied with the purpose of identifying stocks that complied with Islamic law (Siddiqui, 2007). FM6 explained that SCIFs did not actually depend on SSB members but on various agencies to provide them with a list of companies in which they were allowed to invest:

> "As fund managers, we do not devote time and effort to looking for Sharia compliant companies; what we do is appoint agencies. Third party agencies, like Rating Intelligence, are the ones who calculate and give us the permissible list".

Thus, the role of the SSB members has may be diminished and is not so vital for the funds, as the funds have now started to depend on outside sources for their screening criteria. The funds might use the SSB's names merely for marketing the funds, without giving them any real responsibility.

Finally, FM7 noted that it was wrong to blame the SSB for not having a critical role or not suggesting social, ethical or environmental criteria for the funds since they were not responsible for developing these, possibly avoiding blame (FM7). This should not be the case though because there is a lot of similarity with SRI that will help to advance positive screening. Sharia scholars have no excuse for not developing positive screening criteria since there are SRI funds that apply such screening criteria (see Ballestero et al., 2011) and SRI screening plays an essential role in the SRI funds industry (see Renneboog et al., 2011).

6.6.3 Monitoring Sharia Compliant Investment Funds

Fifteen of the interviewees noted that the SSB members' roles were limited to just auditing and confirming that the financial institution's transactions were in line with Islamic law. FM4 agreed with this, as he described the role of the SSB as reviewing the funds from time to time:

> "The SSB's role is just to confirm to investors that we are following the SCIFs criteria, so they have an assurance from credible scholars".

The SSB members interviewed in this study agreed with the other interviewees as SSB3 stated that most of the SSB members' work falls under the audit of transactions. SSB2 emphasised that SSB members checked if the instructions they had sent to the fund managers had been implemented. In the same line, SSB4 explained that their monitoring had to be frequent, since the securities of the funds' investments changed frequently and so needed to be monitored constantly. SSB1 agreed with the other SSB members:

> "The criteria must be applied correctly by the fund managers, as mentioned in our guidelines. Then, we make a periodical check to ensure that everything is fine".

According to interview findings, the SSBs' role in SCIFs was to monitor the funds to ensure that everything was in line with Islamic law, but not look to develop the funds' screening criteria to increase social justice. This accords with DeLorenzo (2002) who notes that the role of the SSBs in SCIFs may be comparable to that of a financial auditor.

Possibly SSBs should make more of a contribution to society, and go beyond just auditing the funds and work to fulfil social justice and develop screening criteria for SCIFs. This will make the scholars' practices more effective in the industry and work to fulfil social justice objectives in society.

6.6.4 The Role of Sharia Committee

Some financial institutions in KSA had appointed a group of employees who were de facto doing most of the SSB's members' work and taken over their responsibilities. FM6 noted that:

> "Every institution has a team of 3 or 4 people in the Sharia team...This team ensures that whatever we do is Sharia compliant. They look at all of the trading we have done; if they find something which is not Sharia compliant, they will report this to the Sharia supervisory board. Then they will ask for a resolution".

FM6's description shows that the Sharia committee did everything that an SSB should do and, it seemed that the SSB members were only called in to resolve difficult issues or if the fund needed a new opinion, or "fatwa". FM3 also explained that SSB members depended on the Sharia committee's work in the financial institution, as he stated:

> "The Sharia committee's main job is confirming that our company's transactions and investee companies are in line with Sharia law; in other words, the committee's work is like that of an internal auditor. If something is not in line with Sharia law, the Sharia committee reports that to the SSB and only then does it become involved and take action. The SSB then studies the report and decides the action that must be taken".

The role of the Sharia committee is important but it was to the SSBs members' benefits and that in reality SSBs members did not do their work in monitoring the funds.

One possible reason to use a Sharia committee, as mentioned by FM9, was that SSB members wanted to do as little paperwork as possible, because the Sharia scholars did not have time to read the full explanation of the transactions. He stated:

> "From my experience, we started a team when I was working in NCB to develop Islamic products. Our team developed 16 products for the bank. The process of starting a product begins with a proposal on 1 page in Arabic because Sharia scholars do not read English and they do not have time to read more than one page. After we gain the initial approval, we start to prepare the documents and get the final approval. Once the product is in operation, there is no interaction or contact between SSB members and operations".

FM6 and FM4 agreed with this, commenting:

> "The Sharia supervisory board members are busy so they just try to give an assurance that the fund has not failed the screening criteria" (FM4).

> "They do not have enough time to look at my portfolio; they do not have time to look at what I'm buying or why, so we have our in-house team, the Sharia committee" (FM6).

SSB members did not want to become too involved, probably because they needed the time to work in other financial institutions too. FM9 stated that: "...it reduces the SSB members' participation in developing the industry as a result of working in different institutions" and they did nothing; just stamping any paperwork.

6.6.5 Sharia Supervisory Boards Members on Too Many Boards

The majority of the interviewees blamed the SSB members for being members of lots of SSBs, as I1 said "...most SSB members are the same for most banks" but I2 explained that it was because of their extensive knowledge:

> "I would estimate that some scholars are members of a lot of boards, but we have to take into consideration their level of knowledge. Secondly, we have a great shortage of scholars who are specialists in this area".

However, interviewees mentioned several reasons explaining why SSBs members were members in lots of funds boards including there was: no legislation and internal management systems; few well-known and qualified scholars; and financial returns.

i) No Legislation and Internal Management Systems

There was no clarity over the SSB's work procedures because they were not regulated by any legal body with influence on SSBs and financial institutions. FM3 and FM7 explained that because SSB members belonged to different boards both inside and outside KSA, they did not have much time. Another reason as FM2 explained was that the problem lay in the financial institutions' systems. Similarly I2 explained that the management had no clear guidance on the who of SSB members'; he stated:

> "...the management style of the funds might give the SSB members the flexibility to be a member of different boards. For example, the fund manager may need to meet with the scholars only once every three months so the SSB members have the ability to work in different places".

ii) Few Well-Known and Qualified Scholars

FM7 explained that due to the limited number of well-known scholars in the Islamic finance industry, they worked on lots of funds. FM9 noted that "...most of the SSB members in the financial institutions are controlled by the same names". I2 pointed out there was a lack of qualified SSB members and that caused them to be on the SSBs for many financial institutions, and FM6 explained that the financial institutions had to deal with the same names because the industry was still young:

> "The SSBs are often criticised because they are not institutionalised but, even in auditing companies like PwC, there are a lot of conflicts of interest. They do an audit then they do a valuation for the same company. I think it is the same argument. Currently, the financial institutions do not have an option. The SSB members are well known and highly respected. Because Islamic finance is still in its first phase we have to depend in this generation until the next stage or development of Islamic finance; we have to wait until that time".

iii) SSBs Financial Returns

Financial return was also one of the reasons why some SSBs members had turned the post into a profession. FM7 noted:

> "Among the SSB members, scholars regard SSB membership as a profession... However, generally, they have a goal which is to make Islamic investment spread and practised in different financial institutions...if you want the truth, we need a big name on the SSB to gain people's trust".

and

> "The SSB members' jobs had become, unfortunately, a profession for some, and some SSB members served on over 20 boards" (FM12).

Fund managers might need well-known SSBs members for their knowledge, but FM13 said: "Obviously, the money has something to do with that. I mean people always try to get more money". FM10 implied that some financial institutions use the well-known SSB members' for marketing. SSB1 agreed, commenting: "The fund manager needs popular scholars for marketing" because SSB members gave customers confidence to invest in the fund (I1 and I2) and hence increased financial returns. He continued: “This makes you feel like the more you pay, the more you get what you want”, which was wrong for the SSB members. FM5 thought that the amount that the SSB members was paid was unacceptable, but RB1 noted that Sharia scholars’ salary was high due to the high demand. However, FM4 explained that SSBs salary did not really matter because the SSB members were not supposed to work for free. FM4 stated:

> “We have to pay them as we pay an accountant and lawyer; the payment is for their time. However, from my experience, if they say about any product that this prohibited, the institution does not say anything and they review our transactions every month”.

FM13 thought that the SSB members deserved to be highly paid since that was their job:

> “However, the most important thing at the end of the day is that they are credible; are they trying to promote people to do business in a Sharia compliant way? I think so, in most cases, so I do not see this as an issue”.

Szczepanowicz (2011) explains that, if the SSB members receive a salary or hold a position in the financial institution, accordingly “the employment status may affect the required impartiality and may affect an unbiased opinion” (p.30). SSB members’ credibility brought profits to fund managers, as they persuaded a lot of people to invest in the SCIFs of which they were on the board.

As this industry is based on Islam, most of the investment decisions that are made depend on Sharia scholars’ opinions because a lot of Muslims only want to invest in Islamic equity funds (Hayat and Kraeussl, 2011), which places a great responsibility on the SSB members. Some of the interviewees insisted that financial reward was SSB members’ rights and that they were not influenced by globalisation in making money. For example, FM4 mentioned: “I do not think that the SSB members are affected by capitalism or globalisation”. Also, he stated that it was not wrong to pay SSB members as long as they are undertaking clear, transparent, effective and regulated work associated with SCIFs, but as FM12 declared, the fact that the SSB members belonged to a lot of boards was unhealthy and affected their image. Most of the interviewees implied that SSB members looked out for their own financial interests and that their own financial return was the main motivation. All of these issues lead to the conclusion that the SSB members might be influenced by globalisation that has shifted their focus towards maximising their financial rewards and not taking other issues into consideration, which will lead to social justice not being fulfilled.

6.6.6 Knowledge of Finance and Sharia Law

FM10 explained that, over the years the SSB's knowledge about investment had developed as the SSB members had to add investment knowledge their religious knowledge to be able to discuss the issues related to financial institutions:

> "The SSB now has the ability to discuss and point out some problems, unlike 15 years ago, at the birth of the industry".

But for other interviewees that was not the case, as I2 noted that SSBs members should have:

> "…a deeper knowledge of both Islamic teaching and financial economics in order to promote their opinion and have a deeper understanding of current financial transactions".

FM5, FM8 and FM10 shared the same opinion, that SSB members did not have investment experience. For example, I1 explained:

> "...SSB members' opinions are limited to the things they know about, and they may be unaware about the things that need updating in the world".

FM13 thought that the SSB board's knowledge of finance was not credible and FM14 commented:

> "The problem is that many Sharia scholars are unfamiliar with how conventional finance works, and how the financial institutions are structured".

FM10 explained this issue could be because of manipulation by financial institutions as they benefited from the SSBs' members' opinions:

> "...some SSB members trust the financial institutions, so some institutions could manipulate the information in order to elicit a particular opinion from a scholar".

Some of the interviewees did not accept the work of the SSB members in terms of their financial knowledge and that might be why some SSBs had little involvement in SCIFs.

6.6.7 The Influence of Globalisation on Sharia Supervisory Board's Roles

The interviewees' discussion indicated that globalisation influenced and affected SSB members as they worked for different boards around the world, were paid a lot of money, did not insist on positive screening and depended on Western indices. The findings show that there were shared common interests between SSB members and financial institutions. The financial institutions needed well-known names to market their products and the SSB members needed the financial institutions to be able to earn a large income, possibly influenced by globalisation. Thus, the focus on social justice was not a priority at all for the SSBs and financial institutions. Western financial culture was spreading throughout the world through the capitalist system of globalisation (see Gandhi, 1998) and was influencing Islamic finance. Said (1993) mentions that developed countries have used globalisation to influence life in developing countries, but for many it depends on, or is built, according to narrow capitalistic values in order to promote global hegemony over weak or underdeveloped nations (see Gallhofer et al., 2011), and supports a liberal capitalist economy (see Dunning, 2005).

This has possibly succeeded and influenced SSB members and fund managers as they are part of the global finance industry. Thus, globalisation has possibly caused a deficiency in the roles of SSB members on SCIFs and, as a result, there is no social justice focus. The next section considers the reasons for not considering social justice by investee companies and the impact of globalisation.

6.7 Investee Companies

According to 17 of the interviewees, one of the reasons for the absence of social justice in SCIFs in KSA was the ethos of the investee companies themselves. Increased demand for SCIFs had made listed companies work to become Sharia compliant to become potential investment. FM3 noted the "…increased demand for Islamic funds will make more listed companies comply with Sharia principles" and this could increase social justice in KSA.

The role of investee companies to increase social justice stems from changes in their practices with the adoption of both negative and positive screening by fund managers. FM6 thought that there would be resistance to change investee companies' practices, but in the end, it would work. FM10 agreed, commenting:

> "...it is possible but it needs to sort of be persuasive and professional in the work. Change of practices must be marketed according to its financial and social benefit rather than the religious aspect".

The investee companies were only looking for profit, so if they found something that would increase their profit and enhance their image, they would adopt these criteria directly. According to the interviewees, there were four reasons for the resistance of the investee companies to change their practices: (1) no external bodies assessed their practices; (2) investee companies do not believe in the importance of social justice; (3) SCIFs do not support positive screening; and (4) globalisation.

The first reason was that there was no specific organisation in KSA that provided an independent measurement of corporate practices. FM3 commented:

> "..., we need to have a way to measure and evaluate positive screening criteria. Companies would not be honest with us unless we have a type of measurement or disclosure from a neutral party".

It is important to have such organisations as EIRIS in UK (see Ballestero et al., 2011), that work independently to help investee companies know how they have to adapt to influence society positively and fulfil social justice. One possible reason of the absence of these organisations as noted by SSB2, was a result of the low level of awareness about the importance of needing to change companies' practices. One solution, suggested by RB1, I1, I2 and I4, was pressure from society that would influence potential listed investee companies. Examples of investors' influence on investee companies existed in North America, Europe and Australia where there were investor networks that had established policies regarding environmental issues and climate change of which companies should be aware (see Sørensen and Pfeifer, 2011). Thus, having governmental or non-governmental organisations could help to push investee companies to change their practices and increase social justice in society.

The second reason why investee companies might resist changing their practices was their lack of belief in the importance of social justice role. SSB1 noted that investee companies would not cooperate in changing their practices because:

> "...that there is no proof that investee companies are harming the environment or society so, unless there is proof, it is hard to require something like this criteria from any company".

Nevertheless, FM8 and FM14 explained that investee companies would cooperate but that the fund managers must take it slowly and explain the benefits of them changing their practices and their effect on social justice. FM6 and FM7, noted that investee companies would support SCIFs adapting positive screening criteria and FM7 gave an example of one of KSA listed company that was not originally Sharia compliant but had changed to become compliant:

> "The financial institution I am currently working in contacted a listed company and explained to them the importance and benefit that the company would gain if it became Sharia compliant. The company cooperated and now it is Sharia compliant."

Investee companies should understand that positive screening aims to fulfil objectives that include social justice and to "push the investee companies to cooperate with fund managers under these new criteria" (FM7). Investee companies should know that environmental and corporate governance positive screening criteria are part of Islam. For example, regarding responsibility to the environment, several verses of the Qur'an mention that this is important in Islam: "Eat and drink, but waste not by excess; verily, he loves not the excessive" (Qur'an, 7:31). Also, regarding responsibility to the employees in investee companies and treating them equally, the Prophet Mohammed said "I will be foe to three persons on the day of judgment, one of them being the one who, when he employs a person that has accomplished his duty, does not give him his due" (see Khan, 1986). Accordingly, positive screening criteria can reflect Islamic law. Investee companies should understand that these practices will improve company sustainability (see Renneboog et al., 2008; Sparkes and Cowton, 2004) and social justice and be reflected in future performance and financial returns.

One of the reasons the interviewees suggested as to why the investee companies did not change their practices was that the SCIFs did not themselves support positive screening. SCIFs need to develop and market that they use positive screening criteria. SSB4 noted that all SCIFs needed to cooperate and apply positive screening, so that there would be pressure to change, but if just one fund adopted such criteria, it would be ineffective. FM14 added that SCIFs' cooperation was needed because that could influence companies to be cooperative. SSB3 agreed that the influence of all of the funds combined would be greater than just same funds adapting such procedures as it would be hard to convince as investee companies to follow such social justice criteria unless SCIFs used it. FM6 noted the impact if funds started applying positive criteria as it would exclude a lot of companies in which the funds usually invested heavily, so their profit would decrease. He stated:

> "To be honest, you do not want to put more restrictions upon yourself. Already, the SCIFs markets are more concentrated and the top ten companies in the market represent 65% of the market so you do not have that much variety. As a Sharia compliant fund, you just have 60 companies out of 130. If you add more criteria, you will decrease it even more and this is risky".

The last reason for investee companies to change their practices was globalisation's influence. This arises from focusing on profit at the expense of social justice by investee companies. FM1 and FM4 stated that the focus of investee companies as well as SCIFs was maximising profit, but not social justice. I3 expressed that investee companies thought about profit without taking any responsibility for fulfilling social justice. Profit was the main goal of the directors and investee companies' boards, in order to maximise their bonuses (I3). FM5 noted the companies' greed:

> "Companies have become greedy; they do not follow work ethics, as the main motivation for them is profit; however, no one can blame them because this is a competitive market".

The focus on profit maximisation and the neglect of positive screening by SCIFs means that investee companies are influenced by globalisation. Held and McGrew (2002) explain that globalisation influences everything, including finance as the world's financial system has been designed by countries that own resources, power and knowledge (Said, 1993) and that enables them to spread their own views of business worldwide. Accordingly, the investee companies are influenced by this and find it difficult to ignore the rest of the world and apply Islamic business values, thus denying any focus on social justice. The next section considers the reasons why regulatory bodies do not support social justice and how globalisation has impacted on this.

6.8 Regulatory Bodies

According to 11 of the interviewees, Islamic finance needed regulation, since currently there were no specific regulations for this industry in KSA. The Capital Market Authority (CMA) regulates both Sharia compliant funds and conventional funds in KSA under just one regulation. In this regard, SSB3 stated that:

> "...countries differ in their dealings with the Islamic finance industry; for example, the Malaysian government is proactive and is taking the lead while that of the KSA is not. The reason is that Malaysia uses the supply driven method but the KSA uses the market driven one".

This accords with Karim (2001) who noted that countries can be divided into two groups with regard to their regulation of Islamic financial institutions, the first group have enacted Islamic financial institutions into their laws and the second have not enacted laws to regulate Islamic financial institutions.

Regulator Rational

SSB1 explained that regulators in KSA did not want to establish separate regulations for SCIFs and that he had sent several requests to the CMA to consider Sharia rules on SCIFs before it implemented any further regulations, as the market was now more Sharia compliant than conventional, but there had been no response. According to FM9, SAMA had a committee that looked after the Islamic banking and finance sector but it was ineffective. SSB2 stated:

> "I was a member of a committee at SAMA called the Islamic Banks Committee, but it had no power, its decisions were not binding, and it is just to show that SAMA has a committee for Islamic banks. The same for CMA; our institution sent a request to them to start a committee for Islamic banking but there was no response. Also, there are several scholars asking the regulatory bodies to start one overarching SSB for all Islamic banks in KSA and institutions but, to date, nothing has happened".

Thus, the regulatory bodies appear to have failed to respond to or develop regulation for SCIFs implying that they are uninterested in fulfilling social justice.

No Need for Regulation

Three interviewees were satisfied with the regulators and thought that there was no need for specific regulations for SCIFs and supported the soft-touch approach to regulating Islamic finance. For example, FM7 commented:

> "...the current role of the regulatory bodies is sufficient for SCIFs, since there is no manipulation".

FM10 clarified that the current regulations were suitable for all funds, explaining that 80% of conventional investment fund's regulations could also work for SCIFs. In the same vein, FM12 mentioned that the motivation to improve the regulations in SCIFs should come from the fund managers themselves and not be enforced by the law and regulations because: "...even if a regulation exists, there are different ways to break the law" (FM12). This accords with Chong and Liu (2009), who found that Islamic finance regulations did not need to differ from conventional ones because "Islamic banking, as it is practised today...is not very different from conventional banking, and the alleged benefits of Islamic banking exist in theory only" (p.127) and hence there was no need to have separate regulations for SCIFs. Thus, SCIFs need to have their own regulations to support their development rather than merely mimic those of conventional funds.

Need for Regulations

Indeed, nearly half of the interviewees in this thesis thought that SCIFs should be better regulated. Eleven of the interviewees said that the regulatory bodies did not play any role in SCIFs. FM6 criticised the regulatory bodies as follows:

> "Regulatory bodies do not have a major role. What they do is just consider SCIFs as conventional funds and have general rules that fit both types. There are no specific rules for Islamic funds".

One of the reasons to have regulations was explained by FM13:

> "I think that they should have clear regulations; for example, fund managers that claim to be Sharia compliant need to show that their Sharia board has proper screening in place, a system and process. If you want to be a Sharia fund, you have to show me that you comply with our system and process".

> "...they do not implement regulations specifically for SCIFs. This could be good but might not be. In this situation, the responsibility for deciding which Sharia compliant fund really follows the Sharia criteria lies in the hands of the investors". (FM8)

Thus, regulation is important to know that funds managers are Sharia compliant and that they do not deceive investors. This accords with El-Hawary et al. (2007) who explain that regulations are needed for: "(i) the supply of a public good, (ii) the protection of public resources, or (iii) the enhancement of the integrity of fiduciary contracts" (p.789). Thus, regulators should take on interest in establishing regulations for SCIFs.

The Importance of Regulations

The regulatory bodies face a "real challenge" because they are dealing with both conventional and Islamic financial systems and requires them taking additional responsibility to "maintain regulatory and supervisory standards for both" (Iqbal and Mirakhor., 2011, p.165). Nevertheless, as KSA is considered one of the biggest markets of Islamic finance (Hoepner et al., 2011) it might important to have KSA regulations for Islamic finance and Islamic funds. Olson and Zoubi (2008) state that if conventional funds and SCIFs work under the same regulations, both will share the same characteristics, which is not true.

FM1 and SSB2 explained that there was no monitoring of SCIFs' processes by the regulatory bodies. Having regulations might ensure proper monitoring as FM2 and FM3 explained, as all of the decisions related to the screening of SCIFs were left in the hands of the fund managers themselves. FM6 agreed that the regulatory bodies' roles did not go far enough for SCIFs, and stated:

> "When they come to conduct an audit, the regulatory bodies' auditors do not look at SCIFs screening criteria; they do not care about this aspect".

FM14 and I1 argued that the regulatory bodies needed to introduce regulations for the Islamic funds because scholars' opinions were different:

> "Actually, we need regulations for the SSB members' opinions because they give different opinions in every bank depending on how the bank presents its case to the SSB members". (I1)

However, Maurer (2003, p. 326) explains that jurisprudence differences should not be an issue as Sharia board members frequently operate as ''bricoleurs, drawing from any jurisprudential source which they deem to be appropriate for a particular problem". Thus, the interviewees' views may not be valid and there should be regulations that mandate the key principles of Sharia law, such as social justice.

From an Islamic point of view, the work of regulatory bodies could consider using Hisba[133] (verification) (Falgi, 2009). According to Siddiqi (2007) Hisba:

> "...functions to ensure fair dealings, preventing fraud and deception and monitoring weights and measures and other standards" (p.3).

For Islamic finance, Wilson (2008) defines Hisba as "regulation of markets in the public interest and in a manner consistent with religious teaching" (p.193) (Wilson, 2006; Wilson,

[133] Hisba is "an institution was established called the hisba, or the inspector of the market "that was responsible for ensuring that all community affairs and market behaviour was conducted according to Shariah law, ensuring that Islamic ethical standards were maintained" (Bhatti and Bhatti, 2009, p.74). It is basically doing of good works and prevents evil works (Kamla, 2009; Barkindo, 2011). The role of Hisba these days is similar to work done by regulatory and monitoring bodies of different industries in any country to ensure that everything is according to law and intervenes when it is necessary.

2008). Having regulations for Islamic funds means having Hisba to enforce regulations (see Pamuk and Bebek, 2006) and govern Islamic finance (see Selim, 2008) by supervising ethics finance (see Gambling and Karim, 1993). Thus, Hisba could help to enforce social justice since it contributes to applying equity and fairness in society (see Kuran, 2004; Selim, 2008). Kamla (2009) argues that according to Hisba, regulatory bodies should take a role to regulate "displacing concerns over ecological and social matters from the spheres of accounting and finance" (p.924). Thus, Hisba might be seen as a way to encourage the spirit that instils social justice.

In the same vein, KSA does not need to invent totally new regulations for its Islamic financial institutions because they already exist in other countries, such as Malaysia. El-Hawary et al. (2007) explain that KSA does not have laws for Islamic financial institutions but operates under "the laws governing conventional banks" (p.788) but regulations are important for Sharia compliant investment. Chapra and Khan (2000) propose three regulations that are needed for Islamic finance and financial institutions: systemic objectives; compliance with Sharia; and the integration of Islamic finance in the international financial system. Likewise, there are several agencies, such as AAOIFI, that has introduced standards for Islamic financial institutions (see Karim, 2001) that could be adapted by a KSA regulator. Thus, regulators should consider external drivers of SRI (see Solomon, 2007) and hence influence social justice such as lack of regulations could be one reason for the lack of social justice in SCIFs.

To support social justice, there must be governmental support such as the UK regulatory support for SRI funds (see Sparkes, 2001; Schwartz, 2003; Bakshi, 2007) where regulations require pension funds to take social, environmental and ethical aspects into consideration (Sparkes, 2001). Through such a policy for big funds, regulations could pave the way for

SCIFs to use positive screening criteria and invest in companies that considered these criteria. The lack of regulation means that fund managers can use SCIFs just as profitable ventures and neglect social justice[134].

Globalisation

Not having regulations for Islamic funds by the KSA regulatory bodies may be due to KSA's historical relationship with the West. The KSA has engaged in a long term relationship with the two major capitalistic powers: the United States and the United Kingdom (see Vitalis, 2007) and there has been economic cooperation between them, such as inviting American companies to work in KSA (see Vitalis, 2007). Further, Arab countries' economies are influenced heavily by their previous Western colonisers, and as a result, most Arab countries' finance and accounting legislation is based on British or French law (see Kamla, 2007). Consequently KSA relationship with the US and UK makes KSA part of the global capitalistic economy (see DeRouen and Bellamy, 2008) and hence KSA regulators have adopted Western regulations in finance. This influence has shaped the financial sector of KSA and the concentration of its law on only conventional finance not Islamic finance. The next section considers the reasons why investors do not think about social justice and the impact of globalisation on this.

6.9 Investors

Seven interviewees stated that investors' opinions impact on fund managers and make SCIFs focus on financial returns. FM13 noted that investors' views affected how fund managers launched a fund to ensure they would get investors:

> "I need to see if my investors are interested in taking this particular risk with this particular investment".

[134] Thus, this section in answering the fourth research question that globalisation influence regulatory bodies (Hisba role) and as a result social justice role was absent by SCIFs.

Indeed, most SCIFs investors are looking for financial returns, as FM1 explained:

> "As you know, a high return means high risk. The SCIFs reduce the investment choices and, as a result, increase the risk".

This accords with Renneboog et al. (2005) who found that SRI investors are similar to non SRI investors as that both focus on past performance and past returns before investing. Investors focus on traditional ways of investment and reject any new investment strategy unless they are sure that a new fund will perform well (FM13). Thus, Renneboog et al. (2011) note that promoting SRI funds depends on investors' awareness of the importance of the social attributes of the funds.

Further, there was no dialogue between investors and fund managers or SSBs members, as SSB1 mentioned:

> "...if an investor discussed with me the companies that our financial institution currently invest in and the investor thought that they were not Sharia compliant for acceptable reasons, then I would take this into consideration and review the relevant company to be assured that we would not invest in non Sharia compliant investee companies".

That caused a disconnect and misunderstanding between them, but in the case of SRI it depends in the first place on investors' awareness of the importance of the social attributes of funds. Thus, funds can gradually improve their screening criteria as investor awareness increases and grows over the years (Renneboog et al. 2011). As a result, investors should have channels to directly contact SSBs and fund managers to promote both social justice and financial returns. Indeed, the fund managers never contact investors to ask their opinions about investment, which may be one of the reasons why there are no screening criteria related to social justice. FM2 and FM3 stated that investors' opinions did not affect their own investment decisions. FM5 clarified that the contract between the customer and the financial institution stated that the customer would not interfere in the fund's decisions so investors' opinions were not important. FM6 noted that "Investors' views do not affect me" and investors could contact the fund managers indirectly, as FM6 explained:

> "Investors interact with the customer relations staff and, if there are any good suggestions, they will transfer them to us and we have the full right to accept these suggestions or not".

Further, he noted:

> "As a fund manager, I do not have the time to listen to thousands of investors. The investors in the fund do not influence any fund manager's decision, the fund manager is completely independent and we try to do our best for our customers".

An interaction between investors and fund managers does not exist and the fund managers noted that contact with investors would not make a difference as investors did not care about social justice. However, if the investor was wealthy that was a different story as FM7 said that wealthy investors were influential and depended upon the extent of the wealth that was invested. SSB4 and SSB2 stated that investors preferred not to become too involved since there were SSBs for every financial institution. Likewise, investors, I1, I2, I3 and I4, mentioned that their opinions were unimportant to the fund managers and that fund managers and SSB members never spoke to them.

Investors who invest their money in SCIFs should have a voice and influence with the fund managers to convey what they want, as this falls under the concept of Shura in Islam. According to Abu-Tapanjeh (2009) Shura 'consultation' is a principle that involves hearing people's opinions before making a decision. Accordingly, Shura would meet Islamic moral values and might help to increase social justice. This accords with Baydoun et al. (1999) who explains that involving people in business adds to their knowledge and helps to complete the work. Abu-Tapanjeh (2009) adds that Shura procedures offer a higher level of trust if institutions' activities and strategies are discussed. Sparkes and Cowton (2004) explain that, in SRI funds, it is important to take investors' opinions into consideration before making decisions. Not having Shura in funds implies an influence of globalisation as the fund managers avoid it and assume that investors only want financial returns. Similarly, investors note that they do not influence fund managers to improve their funds' social justice and the impact of globalisation, means the focus is merely on considering financial returns. The next section now summarises the findings of this chapter.

6.10 Conclusion

The purpose of chapter six has been to understand the fund managers, SSB members, regulators and investors' perceptions of the role of SCIFs in social justice in KSA society and whether globalisation has impacted on that role. Also, this empirical chapter seeks to recognise the factors that hinder SCIFs from having a social justice role in Saudi Arabian society as a result of globalisation's influence. Thus, this chapter answers this study's research questions[135].

Linking investment funds to social justice is new and has not been touched upon before, to the best of the researcher's knowledge. Hence, this contributes to our knowledge. It was found, during the interviews, that the interviewees did not link SCIF practices with social justice Islamic concepts even though they believed in the importance of social justice and, as a result, SCIFs are not achieving their social justice objectives. It is considered a challenge for SCIFs to evaluate their influence on social justice as only performance and profitability are used to measure a fund's success, not social justice. However, the interviewees provide helpful information that facilitates an understanding of the social justice issue in relation to SCIFs. The interviewees identified that the absence of social

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justice may be due to the global economic influence of the West, and its emphasis on financial returns that has permeated through to SCIFs through globalisation. This accords with Boyer (2000), who explains that "globalization meant a new strategy on the part of multinationals, who proposed to sell the same product everywhere" (p.16). The influences of globalisation stem from the interview's findings, as they show that, due to globalisation's influence, the focus of the SCIFs is not on social justice, for several reasons including: (i) the failure to use positive screening criteria; (ii) the SSBs' members' role; (iii) the absence of a Shura role for SCIF investors; and (iv) the absence of a Hisba role for the SCIFs' regulatory bodies.

Further this study focuses on screening criteria as one way for SCIFs to have a social justice role,[136] and one of the main interviewees' criticisms of SCIFs was that they do not use positive screening criteria to increase social justice (see Hallerbach et al., 2004; Renneboog et al., 2011; Ballestero et al., 2011). The use of positive screening criteria can be an indicator of social justice, and more advanced positive screening criteria might advance the social justice influence of funds in society. The reason for this absence could be that, because of globalisation, financial institutions in KSA are profit based.[137] Forte and Miglietta (2011) explain that the values and ethical principles on which Islamic equity funds rely are the religious teachings of Islam. However, the interview findings indicate that Islamic teachings do not form all parts of SCIFs practices, as there is no use of positive screening only negative screening (see Siddiqui, 2007; Hassan and Lewis, 2007; Derigs and Marzban, 2009; Humphrey and Lee, 2011; Ballestero et al., 2012) which means that the social justice concepts, that stem from Islamic teachings, are not linked with SCIFs objectives. The interviewees' ignorance of positive screening and focus on profit maximisation is the main goal of SCIFs as globalisation, in this regard, is always related to

[136] As identified in the social justice definition in chapter 1, for the purpose of conducting this study.
[137] A focus on profit in Islam is not prohibited unless it is at the expense of health, the environment or society. From this study perspective, it is possible for SCIFs to concern about social justice while making profit.

finance. Boyer (2000) explains that “globalisation remains partial and relates mainly to finance. This is the result of explicit or implicit political decisions, not of an implacable economic determinism” (p.1). SCIFs should focus on social justice, not just focus on profit maximisation as this is part of Islamic teachings and try to also avoid the negative effects of globalisation. Looking for profit is something that is allowed in Islam and is a right for everyone but when it comes at the expense of ethics and social justice, it turns into greed because it will have a considerable effect on society (see Al-Qardwi, 1995). Thus, the absence of positive screening in SCIFs is one of the reasons why SCIFs’ do not have a social justice role.

The second reason for the absence of social justice in SCIFs is the weak role of the SSB members. The SSB members are blamed by the interviewees for failing to promote social justice through the SCIFs, as they have the power and knowledge to do so (see Grais and Pellegrini, 2006; Masood et al., 2011; Walkshäusl and Lobe, 2012) but they have not worked to develop positive screening criteria for the SCIFs which can influence the social justice role of the SCIFs. One of the reasons for the weak role of the SSBs might be the lack of supervision by the SSB members over the SCIFs. Szczepanowicz (2011) explains that the main work of SSBs in financial institutions is to guarantee that all transactions are based on Islamic ethics and principles (Szczepanowicz, 2011) rather than to focus on how to improve the role of social justice of the SCIFs. In addition, the focus on only a few scholars as SSB members of financial institutions leads to an absence of trust of the work of SSB members. The work performed by the SSB members, as explained by the interviewees, indicates globalisation’s influence because the SSB members work in many financial institutions to increase their financial returns and hence there is no tangible influence on social justice. Thus, this issue will be explored further in chapter 7. It can be deduced that globalisation which tries to make the world similar in all aspects (see Boyer,

2000) seems to have affected SSB members. The SSB members work for SCIFs as business consultants, who give their views and are paid for this, so the focus of some SSB members strays from imposing social justice in the SCIFs merely to increasing their own financial benefits. Thus, SSB members' role is one of the reasons for the absence of a social justice focus by SCIFs.

Another reason causing the absence of the social justice role by SCIFs as identified by the interviewees, and influenced by globalisation is the investors' role. Investors fail to improve the social justice focus of SCIFs in Saudi Arabia with a lack of lobbying or providing advice (Shura) for SCIFs to apply social justice screening criteria. Shura is an important Islamic teaching that can help to embed social justice in SCIFs (see Abu-Tapanjeh; 2009). For example, Sparkes and Cowton (2004) explain that, with SRI funds, it is important to take investors' opinions into consideration before making investment decisions (Sparkes and Cowton, 2004) reflecting Shura. Jansson and Biel (2011) explain that SRI investors show more enthusiasm about increasing their investments than conventional ones, which will lead to an increase in the SRI market share. According to this, Jansson and Biel (2011) believe that "The business case for SRI seems therefore to be the only reason for major investment institutions to adopt SRI" (p.1). According to the interviewees, one of the negative consequences of globalisation for SCIFs' investors is only focusing on financial returns while they should have more influence in terms of changing the SCIFs to fulfil social justice in Saudi Arabia by practising the Islamic concept of Shura. Thus, it can be deduced that there is an absence of Shura by investors on SCIFs' management, as a result of globalisation, and is a reason preventing SCIFs from having a social justice role.

The absence of any regulatory bodies overseeing SCIFs in Saudi Arabia was another reason highlighted by the interviewees for the absence of a social justice role by the SCIFs. From the Islamic perspective, the role of the regulatory body is called Hisba (See Kuran, 2004; Wilson, 2008; Falgi, 2009). Having regulations for Islamic funds means having Hisba to enforce these regulations (see Pamuk and Bebek, 2006) and govern Islamic finance (see Selim, 2008) by supervising ethical finance (see Gambling and Karim, 1993). The interviewees explain that the regulatory bodies in Saudi Arabia do not have any regulations for any sector of Islamic banking and finance including the SCIFs. The Saudi Arabian investment regulations do not focus on SCIFs but merely provide regulations that work for both Islamic and conventional funds (see CMA, 2006). Thus, the Saudi Arabian investment regulations mimic the western conventional system, as explained by the interviewees, and pay no attention to Islamic teachings with regard to investment despite Saudi Arabia being considered one of the world's biggest market of SCIFs (see Ashraf, 2013; Bin Mahfouz, and Hassan, 2012), indicating the influence of globalisation. Globalisation's influence stems from the regulatory bodies in Saudi Arabia focusing on conventional financial investment matters for funds ignoring that SCIFs might need different regulations that support the Islamic and social justice role of SCIFs. For example, SSB members' work should be organised by the regulatory bodies in Saudi Arabia to enforce SSB members to have responsibility to develop a social justice focus in SCIFs because investors trust them and depend on their opinions. Therefore, the absence of the role of Hisba among SCIFs is one of the reasons for the lack of a social justice role by the SCIFs.

Finally, although globalisation contributes greatly to the benefits to society that cannot be ignored, as recognised by the interviewees, globalisation does not help the social justice role of SCIFs. Globalisation affects SCIFs as the Islamic finance industry has become big business rather than being for ethical investment per se. Islamic finance in general and

SCIFs in particular should emphasise and reflect Islamic teachings of which social justice and ethics are an important and vital part. To develop this further, the next chapter presents a content analysis of the prospectuses of SCIFs in Saudi Arabia to evaluate whether there is any concern for social justice or whether the findings of chapter seven confirm that globalisation has caused an absence of a social justice focus by SCIFs.

Chapter 7

A Content Analysis of Sharia Compliant Investment Funds Terms and Conditions

7.1 Introduction

Chapter seven is concerned with analysing the content of the available terms and conditions (T&Cs) of Sharia compliant investment equity funds in KSA and critically analysing the research findings of the content analysis carried out in this study. The chapter analyses 74 T&Cs of Sharia compliant equity investment funds in Saudi Arabia. Analysing the findings will be based on postcolonial theory with a globalisation lens and, as there is very little literature about the social role of SCIFs, the socially responsible investment (SRI) literature will be the second source for analysing the findings. Despite SCIFs being based on divine law that is perpetual and absolute, and SRI based on human ethical judgment that may change over time, Hayat and Kraeussl (2011) note that non-Muslims regard Islamic equity funds (SCIFs in this study) as close to ethical investment and socially responsible investing (SRI). In the same vein, Ariss (2010) explains that Islamic finance is appropriate for both Muslims and non-Muslims: "Because of its socially responsible and ethical underpinnings, the new class of Islamic investments is appealing to both Muslims and non-Muslims who seek to invest in socially responsible products" (p.102). In addition, Jouaber (2012) states that "Shari'ah compliant investment is often likened to Socially Responsible Investment since their main goals are similar and both are screened" (p.2). The main point of SRI is "that investment decisions take into account both financial and non-financial considerations, with the focus on nonfinancial matters given to ethical, environmental, and moral concerns" (Ferruz et al., 2011, p.503). As investment decisions rely on the investors' ethical, religious, social or other normative preferences (Humphrey and Lee, 2011; Renneboog et al., 2011), these can be considered to be similar to SCIFs (Ariss, 2010)[138].

[138] In chapter 3, section 3.7.2, it was discussed that SRI has religious background similar to SCIFs. The similarity that is mainly important for this study is stemmed from the idea that both try to impose screening criteria that based in moral values and can change people life and impose social justice (see Hussain 2004; Miglietta and Forte, 2007; Siddiqui, 2007; Merdad et al., 2010, Lewis, 2010).

The main concern of the analysis is the social justice perspective of SCIFs and critically examines: (i) if the Islamic concepts of social justice are reflected by the SCIFs T&C by analysing the SCIFs' T&Cs' disclosures, which include the screening criteria; and (ii) if globalisation has influenced the SCIFs T&Cs by analysing the main focus of the T&Cs. The word count will help to reach this goal because the more often a specific word is repeated, the more important it is, and vice versa (see Aribi and Gao, 2010). From this study's perspective, for example, the more frequent words are used related to the Islamic concepts of social justice, the greater is the focus of social justice, and vice versa. This chapter will answer the second and third research questions and provide insights for answering the fourth research question. The findings from the word counts will help to recognise if social justice is reflected in SCIFs T&Cs and if not the globalisation has fingerprints that lead to this result. Hence, the findings will guide the researcher to answer the fourth research question[139].

The first section of this chapter is concerned with outlining the details regarding the specific use of the content analysis method in this study. It will commence with a brief introduction of the meaning and objectives of the content analysis research method for these purposes. This is followed by the findings, and a critical review and discussion throughout every section. Social justice in KSA funds' T&Cs will be assessed according to the T&Cs disclosure and if it has an influence on social justice from this thesis perspective. The conclusion will present the theoretical reflections on the analysis of the results.

[139] This study research questions are: (i)Should SCIFs in Saudi Arabia have a social justice role?; (ii)What are the perceptions of SCIFs' stakeholders in relation to social justice and is social justice reflected in SCIFs prospectuses (T&Cs)?; (iii)What are the perceptions of SCIFs' stakeholders in relation to globalisation and has globalisation influenced the focus of SCIFs prospectuses (T&Cs)?; and (iv)Which factors (if any) hinder SCIFs from having a social justice role in Saudi Arabia?.

7.2 Content Analysis

Content analysis is a suitable research method for studying corporate documents, such as annual reports and prospectuses (Unerman, 1999) to highlight matters that stakeholders may be unaware of and also makes it possible to work with a huge amount of data (Hines, 1988 as cited in Unerman, 1999). Content analysis is employed in this study to facilitate a critical assessment of globalisation, the Western influence and the social justice role of SCIFs based on the T&Cs of 74 Sharia compliant equity investment funds (see Table 7.1). A critical assessment is employed to generate insights with regard to the social justice practices in the light of globalisation. The frequency of the words on the checklist that were designed for this study will help to make this assessment to find out if the SCIFs in Saudi Arabia have a focus on social justice or whether globalisation has influenced their focus to be on Western capitalist ideas.

7.2.1 Sample Choice

The process of choosing the sample went through several phases. First, the annual reports of fund managers in KSA were selected, but because many were unavailable and those that were included a lot of information that was unrelated to SCIFs, the annual reports of the fund managers as the focus of content analysis were excluded. The availability of T&Cs was then assessed by first examining the Saudi Stock Exchange (Tadawul) website. If the funds' T&Cs were not available from the Tadawul, the researcher then looked at the fund managers' websites. However, there were many T&Cs, but of different types, such as equity funds, Murbaha investment funds and conventional investment funds (Table 7.1 explains the T&Cs' availability). However, this study focuses only on equity investment funds because most SCIFs invest in equity, with eighty-four of the 163 Sharia compliant investment funds in KSA being equity funds (see Table 7.1). The first column of Table 7.1 shows all KSA fund managers that have Islamic investment funds. The second column shows the total number of funds, both Islamic and conventional, of each fund manager. The third column shows the number of Islamic equity investment funds for each fund manager. The last column represents the T&Cs that are available and are used to conduct the content analysis for this study. As shown in Table 7.1, the total number of T&Cs that were available for Sharia compliant equity funds was 74 out of 83.

Table 7.1
The SCIFs Sample

	Fund Manager	No. of Investment Funds	No. of SCF	SC Equity Funds	Available T&Cs
1	Albilad Investment	5	5	4	4
2	ANB Capital	18	7	3	3
3	Al Rajhi Capital	14	14	8	8
4	Al Tawfeek Financial Group	1	1	0	0
5	Al-Khabeer capital	2	2	1	0
6	Al-Nefaie Investment Group	1	1	1	1
7	Alawwal financial Services Co	3	3	1	1
8	Alinma Investment	2	2	1	1
9	Alistithmar Capital	10	4	2	0
10	Aljazira Capital	6	6	4	4
11	Arbah Capital	1	1	1	1
12	Bakheet Investment Group	3	2	2	2
13	Derayyah investment	3	3	0	0
14	Falcom Financial Services	8	8	2	2
15	Global Investment House Saudi	2	1	1	1
16	HSBC Saudi Arabia Limited	21	15	9	9
17	Jadwa Investment	14	14	7	7
18	KSB Capital Group	6	6	2	2
19	Middle East Financial Investment	2	2	1	0
20	NCB Capital	25	23	13	13
21	Riyad Capital	34	12	5	5
22	Shuaa Capital Saudi Arabia	3	2	1	1
23	Samba Capital & Investment Management	20	8	4	4
24	Saudi Fransi Capital	11	8	5	3
25	Saudi Hollandi Capital	22	10	5	1
26	The Investor For Securities	3	3	1	1
	Total	**240**	**163**	**84**	**74**

Source: Tadawul, 2013
Note: the table includes both SCIFs and conventional ones. Also, it indicates the T&Cs the sample chosen for the content analysis.

Pre-samples were employed in the content analysis to develop a set of categories that could be used in analysing the sample chosen for this research (Krippendorff, 2004). In addition, the categorisation was built based on similar studies that have examined similar issues, such as Kamla (2005), Maali (2006), Abdul Rahman et al. (2010), Aribi and Gao (2010), Chegut et al. (2011), and Capelle-Blancard and Monjon (2012).

7.2.2 Data Capture

There are several different methods for coding units, also called the enumeration units, in order to determine how content is measured (Kassarjian, 1977; Krippendorff, 2004; Unerman, 2000). The way in which data is captured and measured, according to content analysis, depends on a number of different coding units methods. In previous studies, the methods used employ: number of words (Zeghal and Ahmed, 1990; Deegan and Gordon, 1996), number of sentences (Guthrie, 1982), proportion of a page (Guthrie and Parker, 1989, 1990; Gray et al., 1995a, 1995b), and percentage of a document (Gray et al., 1995a, 1995b).

This study attempts to capture the frequency of words that refer to any social justice content in the text by analysing the number of words used for specific terms in each category, and then allocating them to suitable categories. Abdul Rahman et al. (2010) explain that "most of the previous studies used words, paragraphs, and pages to measure the content of social and environment text" (p.26), and Aribi and Gao (2010) clarify that the number of words will enhance the reliability of the content analysis. Also, this study analyses the significance of these disclosures and relates them to the analysis. For example, if the findings show that there is a greater frequency of words such as 'accountability' or 'ethics', then this is an indication that SCIFs have a social justice focus, and vice versa. The content of the mainstream funds literature is largely related to issues such as fund profitability, performance, calculating Zakat or excluding Riba. This study, however, extends this limited view to consider the form of social justice that should be achieved by the SCIFs.

7.2.3 Categories of Disclosure

A precise classification and definition of the disclosure categories is required for content analysis (KassaIjian, 1977; Krippendorff, 2004). The establishment of clear decision rules relating to each category is essential in order to guarantee "mutually exclusive, exhaustive and independent categorisation" of all social justice related disclosures (Dunne, 2003, p.150; Krippendorff, 2004; Gray et al., 1995a; 1995b; Unerman, 2000). The categorisations are required to have "shared meanings" (Gray et aI., 1995b, p. 85). Also, the data collection and analysis must be capable of replication, in order to meet the criterion for reliability (Krippendorff, 2004). Accordingly, the concepts used to describe social justice in Islamic literature such as Zakat and accountiblity was employed for the categorisation. Also, the socially responsible investment fund's literature was used to develop categories related to social justice. This study is to the author's knowledge the first to examine the social justice role of funds in KSA. This selection procedure resulted in 11 categories: fund's general information; fund's general disclosure; social justice in Islamic funds; positive and SRI screening criteria; negative screening; financial screening criteria; financial indications in funds; regulatory body and regulations; Western influence; SSBs; and SSB's names.

7.2.4 Data Coding

Throughout the pre-analysis stage, the student and one of PhD student's colleagues coded the pre-analysis sample of T&Cs. Any differences were spotted and reconciled. Some refinement of the decision rules was needed as a result of the disclosures arising from the pre-analysis sample. That adjustment was necessary to "categorise disclosures where an overlap of categories was found, or to clarify coders decisions' " (Dunne, 2003, p.152). As agreement between the two coders was higher than 90%, the content analysis for this study began.

All 74 T&Cs were then coded according to the detailed decision rules developed during the pre-analysis stage. The findings for each T&Cs were filled in the final prepared form for this study. The final stage involved summarising all of the findings on one large spread sheet.

7.3 Social Justice Practice in 74 Funds' T&Cs

The following are the results of the content analysis of the T&Cs for Sharia compliant equity investment funds in KSA. Each table will represent a different category under examination.

7.3.1 General Information about the Funds' Sample

This section is concerned with analysing the general information about Sharia investment funds. The section focuses on the funds' currencies and funds' target markets, followed by a critical analysis. The rationale in this section is to understand whether SCIFs in Saudi Arabia prefer to invest in the Saudi Arabian capital market or in the international markets, such as the US and Europe. The findings from this section may help us to understand the influence of globalisation on SCIFs. For example, if SCIFs invest in the Saudi Arabian capital market this might mean that they are less influenced by globalisation and invest in the Islamic market where social justice pervades society and, thus, should influence SCIFs to have a social justice focus on society. Tables 7.2 and 7.3 show the results.

Table 7.2
Fund’s Currency

Currency of the Funds	No. of Funds
Saudi Riyals	47
US Dollars	26
Kuwaiti Dinar	1
Total	**74**

Note: the table shows the type of funds’ currency.

Table 7.3
Funds’ Country Focus

Fund Market	No. of Funds
Saudi Arabia	33
International (US & Europe)	16
GCC	15
Emerging Market	4
Asia Pacific	3
Arab market (Other than GCC)	2
Africa	1
Total	**74**

Note: the table shows the target markets for SCIFs.

According to Table 7.2, most SCIFs’ currencies are in Saudi Riyals, used by 47 investment funds, followed by US dollars, used by 26 investment funds, and then Kuwaiti Dinars, used by only one fund. Table 7.3 supports Table 7.2, as it shows that most SCIFs are invested in the Saudi stock market, with 33 funds, followed by the international markets, mainly the United States and Europe, with 16 funds. All of the local and GCC funds invest in the Saudi Riyal, while international investment is in US dollars. The high number of SCIFs focused on the KSA market might be due to the fact that there are a lot of Sharia compliant companies within which funds may invest. For example, the AlAhli Saudi Trading Equity Fund’s T&Cs mention that:

> “The Fund will seek to reduce risks through diversifying the portfolio across different sectors within the Saudi stock market while seeking to achieve competitive returns compared to the Fund Index” (p.3)

However, 41 SCIFs invest outside Saudi Arabia market, which might indicate that globalisation influences them. Most international SCIFs invest in the US, which might be because the Saudi Riyal is pegged to the US dollar, so the exchange rate is fixed reducing risk. For example, the AlAhli US Trading Equity Fund T&Cs mention that:

> "...the Fund seeks to achieve competitive returns during the medium to long term (5 years or more) through investing selectively in US companies" (p.3).

In addition, the international funds' focus on the developed markets, as shown in Table 7.3, is possibly due to the fact that there is less risk in mature markets. This could be one of the positive influences of globalisation in terms of investment for SCIFs. Nevertheless, in terms of social justice concepts, the findings in the following sections in this chapter show that the focus appears to be on profit maximisation, indicating globalisation's influence with a focus on profit and capitalist ideology.

7.3.2 General Information about Funds T&Cs

This section analyses the type of information disclosed to investors as a proxy to see what fund managers think is important to disclose in the first few pages of SCIF prospectuses. The items shown in Table 7.4 were selected for this purpose. Most of the items in this section, shown in Table 7.4, are presented on the first few pages of the T&Cs (usually from pages 1 to 5), and hence have a higher chance of being read by investors, thus reflecting the importance attached to these by the funds. This section is more like a disclosure index (only for this part of this chapter) to see what is important for fund managers to produce to investors in the first few pages. The titles in the first pages of the T&Cs might give an impression of what fund managers think should be read by the funds' subscribers, and might give an indication of whether or not the funds are interested in social justice. For example, if the SCIFs provide a title, such as 'Islamic Investment Principles', this will indicate that the fund takes into consideration the social justice concepts in Islam while, if the titles only point to general and financial information, that will be a sign of globalisation, as the fund focuses only on financial information, despite it being a SCIF.

Table 7.4
Funds' General Disclosure

	Funds' General Items	No. of Funds' Disclosing Items
1	Name and address of the Investment Fund	74
2	Commencement[140]	74
3	Participation amounts/Minimum Investment	74
4	Currency of the fund	74
5	Investment fund objectives	74
6	Principal investment strategies[141]	74
7	Fees and expenses	74
8	Fund board members' information	74
9	Summary of the financial disclosure statement	70
10	Dividend distributions	12
11	Sharia Investment Risk/Sharia Compliance Risk	64
12	Equity Markets Risks/Stock Market Volatility	73
13	Islamic Investment Principles	0

Note: the table shows the important titles in the T&Cs.

As can be seen from Table 7.4, the T&Cs for all of the funds in the sample disclosed similar general titles. Most of the titles were related to the financial information such as objectives, strategy, fees, expenses, and currency, with no mention, in any of the funds, of Islamic investment principles.

Titles such as 'Islamic Investment Principles' do not exist in the T&Cs, but are mentioned in the T&Cs' context. For example, these three words together, 'Islamic investment principles', are formed as part of a general statement to show that the fund is following Sharia without the addition of any further details. For example, the HSBC Amanah Saudi Industrial Companies Equity Fund T&Cs mention, under the fund's objectives, that the fund is involved in:

> "...investing in a diversified portfolio of equities, that are compliant with the Shariah Criteria that has been set forth by the SSC of the Fund" (p.7).

[140] The date on which the fund started.
[141] The criteria that the fund managers follow when choosing investee companies.

This is surprising because, as Szczepanowicz (2011) mentions, “Islam emphasises a religious approach to life” (p.iii) so it should cover all aspects of life, including the legal documents of Sharia fund managers. The absence of titles about Islamic investment funds principles shows that globalisation and the global market may have influenced the way in which these T&Cs are written. It is important for Sharia compliant funds to mention the Islamic source of investments to demonstrate the extent of their credibility as Islamic. According to Szczepanowicz (2011), Islam considers that the law emphasises the “moral, ethical and legal principles and promotes a certain code of behavior described by the Holy Quran and describes or lists both the unwritten and written code of obligations toward every sphere of human activity” (p.26). Currently, in general, Islamic finance appears to be following only “the basic principles of Shariah” (Fasih, 2012, p.98) despite the fact that Islam “promotes improving one’s economic condition, it has to be done within a framework of good values and good economic/business practices” (Ebrahim 2008, p.118) to improve social justice.

However, “Islamic investment principles” are mentioned throughout the text, but not as a title, and in some T&Cs, without any further details, and are often described negatively as a reason for increased fund investment risk. They are mentioned, usually, under Islamic Investment Risk, as Islamic investment principles are “dangerous” in terms of decreasing financial returns. For example, the HSBC Amanah Saudi Equity Fund’s T&Cs state:

> “It is possible that the Islamic Investment Principles adopted by the Fund may result in the Fund’s portfolios performing less well than portfolios with similar investment objectives that are not subject to any Islamic Investment Principles” (p.8).

That might reflect reality and honesty but the T&Cs of the SCIFs are supposed to mention the positive side of SCIFs as well. For example, once SCIFs adhere to ‘Islamic Investment Principles’ that might help the fund to play a social justice role in society. The current statement may be considered a negative indication of their real objectives, since they fail to mention the importance of adhering to Islam despite this being their sole objective and how adhering to Islamic investment principles will be useful in terms of improving society and increasing social justice.

These SCIFs' T&Cs also fail to explain the importance of Islamic investment principles in the long term, because there are no titles referring to what 'Islamic Investment Principles' means. Indeed, as Jansson and Biel (2011) show for SRI funds from the Swedish market, both conventional and SRI investors share the belief that "SRI gives less return in the short term but slightly more than conventional investments in the longer term" (p.1). Because the SCIFs are similar to SRI (see Merdad et al., 2010, Lewis, 2010), sticking to the 'Islamic Investment Principles' might provide more sustainability for the SCIFs. On occasion, Sharia investment principles are mentioned in an Appendix to the T&Cs but are linked only to the issue of Riba, as in the Samba Al Nafees Global Commodities Equity Fund's financial criteria:

> "Shariah investment principles do not allow us to invest in companies that receive substantial income from interest or companies that have high interest rates" (p.23).

This indicates honesty in the content of T&Cs and refers to social justice as well; however, social justice is not only achieved by avoiding Riba despite Riba being the root of social injustice from an Islamic perspective. There are many research studies with regard to Riba in Islamic finance (for example, see Mirza and Baydoun, 1999; Lewis 2001; Chapra, 2001; Haniffa et al., 2004; Olson and Zoubi, 2008; Rahman et al., 2010; Lewis 2010; Manage, 2011; Hayat and Kraeussl, 2011; Fasih, 2012; Yaqub and Bello, 2010) but not many studies discuss other social justice aspects. The SCIFs should go beyond Riba and care also about humanity, health and the environment (see Kamla, 2006) in order to have a social justice role. As can be seen from Table 7.4, Islamic investment principles should not be limited to just basic information alone but should be deeply rooted in investment decisions to reflect Islamic principles including social justice. Despite the fact that all SCIFs must follow Islamic investment principles, the findings show that the T&Cs for SCIFs in KSA focus on financial information and refer to Sharia principles in only a negative manner. The funds do not offer any explanation of how they comply with Islamic investments principles in a broader sense. Walkshäusl and Lobe (2012) explain that Islamic investment must "act in accordance with the principles of the Sharia, the Islamic law, governing all aspects of a Muslim's life" (p.1) and that requires paying Islamic investment principles more attention and going beyond the basic information. Accordingly, to impose Islamic investment principles, it is important not only to mimic conventional Western T&Cs but also to impose Islamic investment principles as another layer on and be innovative, through the SSBs and investor demand. The next section focuses on the analysis of the findings related to social justice.

7.3.3 Social Justice Disclosure in Sharia Compliant Investment Funds

The social justice analysis is divided into four categories and critically assesses the extent of disclosure in each one to measure the level of social justice in SCIFs in KSA and to assess whether or not they are influenced by the West and global competitive, capital markets and how that effects the role of SCIFs on social justice.

7.3.3.1 Islamic Themes Relating to Social Justice

Table 7.5 lists the main terms related to social justice that could be in the T&Cs of SCIFs according to the literature and similar studies. These form the most important terms used in the Islamic finance and accounting literature. The terms chosen accord with similar studies that have employed content analysis (Aribi and Gao, 2010; Rahman et al., 2010; Kamla, 2005; Maali et al., 2006; Haniffa and Hudaib, 2004).[142] Rahman et al. (2010) and Maali et al. (2006)[143] study social disclosures on the part of Islamic banks by designing a benchmark for social disclosure. This benchmark includes the concepts of accountability, social justice and ownership. Rahman et al. (2010) explain that:

> "…accountability to Allah also encompasses one's accountability to society and therefore may be interpreted as promoting social justice and social responsibility" (p.19).

Thus, being socially responsible means increasing businesses' accountability to the community (Kamla, 2007). One such method is Zakat an important element of Islamic business, as it is paid to people in need (Visser, 2009; Lewis, 2001; Atia, 2010; Farooq, 2008; Nainggolan, 2011). Kuran (2004) explains that most economists regard Zakat as a very powerful instrument in terms of achieving equality and social justice in the community and it helps in solving social economic problems (Ismail and Possumah, 2013). Thus, it is important to examine Zakat as a factor of social justice.

Likewise, purification is important, as some Sharia scholars allow investment in companies that have "small proportions of their revenue from a prohibited activity" (Fasih, 2012, p.831, Lewis, 2010) but they require investors (or funds) to donate this proportion to charity to purify their earnings from prohibited activities (Lewis, 2010; Fasih, 2012) and this is what most SCIFs seem to be doing on behalf of investors. Thus, the funds will give part of the haram income to charity, in order to 'purify' the revenue (see Siddiqui, 2007), and such payment can be used for social justice. Regarding poverty, Dusuki (2008) explains that the most important dimension of Islamic banking and finance is that it offers assistance to the poor. Sharia principles require people to be concerned about poverty and the equal

[142] However, most of these studies used annual reports. To conduct this study, first, the annual reports of fund managers' in Saudi Arabia were selected, but because many were unavailable and those that were included a lot of information that was unrelated to SCIFs. The availability of T&Cs was then assessed and because of their relevalance and availability they were chosen for this study.
[143] Rahman et al. (2010), Maali et al. (2007) and other studies' checklists were adapted in this study for the work carried out in chapter 7 but modifications and new categories and items were developed to make a contribution to our knowledge.

distribution of wealth to fulfil social justice (Haniffa et al., 2004). Islamic finance must start to emphasise issues related to society by not investing in companies that do not care about society's health care and merely focus on maximising their profits.

Another issue is Riba which is prohibited in Islam (Lewis, 2001; Manage, 2011; Yaqub and Bello, 2012; Chapra, 2001; Mirza and Baydoun, 1999). Mirza and Baydoun (2000) argue that Riba (usury) breaches the principle of social justice, in that it provides benefits to people who neither make an attempt to, nor contribute to, the risks of any project. Islamic equity funds are different from conventional ones because they cannot invest in certain sectors or pay or receive interest (Lewis, 2010; Hayat and Kraeussl, 2011; Walkshäusl and Lobe, 2012; Bassens et al., 2011; Olson and Zoubi, 2008, Hearn et al., 2012). As a result, prohibiting Riba in Islam is an obvious example of helping social justice (Rahman et al., 2010).

The words social and ethics were also added to the checklist because they are important in Islam, as Sharia is considered the law that emphasises "moral, ethical and legal principles and promotes a certain code of behaviour described by the Holy Qur'an and describes or lists both the unwritten and written code of obligations toward every sphere of human activity" (Szczepanowicz, 2011, p.26), including investment. SCIFs are not allowed "to invest in unethical companies" (Hayat and Kraeussl, 2011, p.189) as this conflicts with social justice. In addition, the words social and ethics were used in the content analysis checklist in the study conducted by Ariabi and Gao (2010) and Rahman et al. (2010). Table 7.5 summarises the findings of the words and terms discussed above.

Table 7.5
Social Justice Disclosure in Islamic Funds

Word		Total Disclosure	No. of T&Cs
1	Accountability	0	0
2	Zakat	14	10
3	Purification/Purified	77	46
4	Purification Process	28	28
5	Poverty/Poverty alleviation	0	0
6	Social/social justice/Social responsibility/Social objective	0	0
7	Riba (usury/interest/non-interest based)	266	65
8	Islamic sources (Quran or Hadith)	7	4
9	Other (any reference to issues related to social justice not mentioned above)	9	9
10	Ethics	0	0

Note: the table shows the important terms that refers to social justice in the Islamic finance literature. Word means: the specific word that the researcher looked for. Total disclosure means: the number of times that specific word is repeated in all T&Cs. No of T&Cs means: the specific word is repeated in only, for example, 10 T&Cs out of the total sample.

As can be seen from Table 7.5 there is a lack of disclosure of Islamic themes related to social justice in Islam. For example, the word ‘accountability’ was not found at all in any of the T&Cs, nor was there any reference to a fund’s accountability to Allah (God) or society. In addition, the word ‘Zakat’, which is very important in Islam, was mentioned only 14 times in only 10 T&Cs, and even then it was only mentioned that the Zakat was the investor’s responsibility, without giving any further details. This shows that the financial institutions do not consider Zakat to be useful, or something that they consider is their duty, possibly because, as Szczepanowicz (2011) states, Zakat “creates an additional problem for Islamic finance and banks” because “Zakat can lead to the distortion of revenues, income and accounts on balance sheet. Another problem is the distribution of Zakat” (p.116). Accordingly, the fund managers’ avoid mentioning Zakat in their T&Cs and leave it up to investors and their own conscience to decide how and whether to pay it. Purification was mentioned more often in the T&Cs, featuring 77 times in different 46 T&Cs, while the “purification process” was only mentioned in 28 T&Cs, which is only 36% of the sample. Fasih (2012) explains that referring to purification in legal documents is important as

Sharia compliant investors must donate a proportion of their profit to charity in order to purify their earnings from prohibited activities so they need to know how a fund purifies its investment activities. A best practice example of the purification process was mentioned with reference to the AlAhli Emerging Markets Trading Equity Fund (p.11-12):

> "The Manager will determine the income generated from non-Shariah-compliant sources and will pay the amount to a separate account to be given to local charities by applying the following: Determine the non Shariah Compliant income amount for each company in the portfolio; Divide the above non Shariah Compliant income amount over the total number of the company's shares; Multiply the result of the above in to the actual number of shares the fund owns of that the company to come to the fund's share of the non Shariah Compliant income for that specific company; Repeat all the above for all companies where applicable and Pay the resulted amount to a separate account to be given to local charities".

Thus, this finding appears to be more in tune with Islamic principles and concepts of social justice. While purification is not mentioned by all the funds, it is mentioned more than most other terms referring to social justice. The focus on purification might be due to the small number of fully Sharia compliant investee companies in KSA and in the rest of the world (Wilson, 1997; Derigs and Marzban, 2009), hence, funds invest in companies that are mainly Sharia compliant whose haram earnings need purification. Purification as a word began to appear after Islamic financial institutions began to be allowed to invest in non-fully Sharia compliant companies by Sharia scholars (Wilson, 1997; Derigs and Marzban, 2009, Hoepner et al., 2011). Accordingly, the term 'purification' has become a word that is mentioned by SCIFs to give confidence to investors of their Islamic orientation, and indicate that they are Sharia compliant and worthy of trust and investment.

However, the word Riba, or interest, was mentioned more than any of the other words in Table 7.5. This accords with the focus on Riba and Zakat in the contemporary Islamic finance literature (Siddiqi, 1982; Zaheer, 1996; Siddiqui, 2002; Thomas, 2006; Zaheer, 2007; Lewis, 2001; Manage, 2011; Yaqub and Bello, 2012). Baydoun (1999) and Kuran

(2004) mention that most studies on Islamic banking focus on the technical aspect of avoiding Riba or calculating Zakat, so they usually fail to discuss other aspects, such as any social role. Riba was mentioned 266 times, in 65 T&Cs, representing 88% of the sample. The nine funds that did not mention Riba were in financial institutions that operate only SCIFs exclusively and do not deal with conventional finance at all. Further, an interesting finding was that the term Hadith from the Islamic Sunnah occurs seven times in four T&Cs. These Hadith were mentioned in the financial criteria to explain the basis on which the ratio of the financial screening criteria was selected[144]. Three of these four funds were run by Aljazira Capital: its Al-Mashareq Japanese Equity Fund; its Al-Thoraiya European Equity Fund; and its Al-Khair Global Equity Fund. The fourth fund was Global Investment House. The first three funds share the same SSB members but the last one did not mention the names of any of its SSB members. However, the SSB members of the first three funds were also members of the SSBs of other funds. Accordingly, different investment funds share similar SSB members, but despite this the funds' prospectuses and T&Cs are not similar, and can be totally different.

However, the four funds that mentioned the Hadith[145] only explain that the 33% ratio for Total Debt/Market Value of Equity (36 month average) was chosen because "according to the Hadith narrated by Sad Bin Abu Waqqas, the prophet Mohammad said about giving prosperity to charity after death "one third, yet even one third is too much" which indicates that, In Islam, much equals a third" (p.29) (Al-Bkari, 1987), accordingly the ratio should not be over a third which is 33%. Notably, these four funds mentioned that they were working to decrease this ratio as soon as possible, which was not mentioned by the other funds. This accords with what was mentioned earlier; that the focus of SCIFs is often on

[144] For the details of the financial ratios, see the appendices.
[145] Most T&Cs were in both Arabic and English languages but some fund managers provide only Arabic version such as Aljazira Capital and that required the researcher to translate the important matter such as the Hadith mentioned in this section.

how to avoid Riba[146], because most of these financial criteria aim to avoid Riba or interest and interest based loans[147]. Accordingly, there is little or no concern for social justice, and the SCIFs' T&Cs appear to be very similar to conventional ones in term of only focus on financial returns. The findings in Table 7.5 highlight the issue of globalisation as there is a poor disclosure of Islamic social justice concepts when it is compared to other words related to profit maximisation later in this chapter. The next section examines screening criteria of SCIFs and whether it is increase social justice in KSA society.

7.3.3.2 Screening Criteria Related to Social Justice

Positive Screening Criteria

The following Tables (7.6, 7.7 and 7.8) show the results for the three categories of terms that indicate any social justice screening criteria that SCIFs undergo prior to any investment being made, thus demonstrating that they are following Islamic principles. This section first investigates if SCIFs use positive screening criteria similar to those used in socially responsible investment funds (Table 7.6) (Renneboog et al., 2011; Sturm and Badde, 2001).

[146] The fact that Riba was mentioned most makes sense as this is the root of social injustice from an Islamic perspective. However, from this study perspective for SCIFs to have mentioned social justice they should care about other Islamic social justice concepts (see Table 7.6).
[147] For the financial criteria, see the appendix 7.3 to 7,7.

Table 7.6
Positive and SRI Screening Criteria Related to Social Justice

	Environmental Items	Total Disclosure	No. of T&Cs
1	Environment	0	0
2	Climate	0	0
3	Clean Technology/Renewable energy	0	0
4	Pollution	0	0
5	Clean energy	0	0
6	Minimize environmental impact	0	0
7	Disclose environmental policies and practices to shareholders, employees and community.	0	0
8	Address their environmental performance	0	0
	Social items		
9	Community relations/Development	0	0
10	Sustainable living (health care)	0	0
11	Human rights	0	0
12	Employer-employee relations/Labor relation. (For example, compensate their employees fairly, good management relations, provide training for employees)	0	0
	Other Items		
13	Direct engagement with companies	0	0

Note: the table shows the positive screening criteria used by SRI fund (Renneboog et al., 2011; Sturm and Badde, 2001) in USA and Europe and if these criteria are disclosed in KSA SCIFs' T&Cs.

As shown in Table 7.6, there was no disclosure at all of any positive screening criteria. This is as a huge limitation of SCIFs in KSA because all of these screening criteria form part of social justice and core parts of Islam, and are also used in SRI investments. All of these screening criteria can be found in Islamic teachings, with a great emphasis placed upon them. For example, regarding responsibility to the environment, several verses of the Quran mention that this is important in Islam: "Eat and drink, but waste not by excess, verily he loves not the excessive" (Quran, 7:31). Also, "Do not mischief on the earth, after it has been set in order, and invoke him with fear and hope; Surely, Allah's Mercy is (ever) near the good-doers" (Quran 7:56). In addition, from the Sunnah, "The world is beautiful and verdant, and verily Allah, be he exalted, has made you his stewards in it, and he sees how you acquit yourselves" (Ahmed, 2004). Regarding responsibility to one's employees and treating them equally, the Prophet Mohammed said "I will be foe to three persons on the day of judgment, one of them being the one who, when he employs a person that has accomplished his duty, does not give him his due" (Al-Bukhari, Volume 3, Book 34, Number 430, see Khan 1986). Also, Islam emphasises community responsibility, as the Prophet Mohammad said "None of you is a true believer until and unless he loves for his fellow man what he loves for his own self" (see Kamla et al., 2006). From these sources it can be concluded that most SRI positive screening criteria exist in Islamic teachings, hence focusing on selecting companies that have superior standards on matters such as corporate governance, employee health, or environmental protection (Renneboog and Szilagyi, 2011; Becht et al., 2010; Renneboog et al. 2011). SCIFs have no excuse for not using positive screening criteria since they are types of socially responsible investment (Ballestero et al., 2011) and positive screening plays an essential role in the SRI fund industry (Renneboog et al., 2011). For example, SRI funds "which invest in companies with powerful environmental policies, honest practices and social guidelines inspired by moral institutions" (Ballestero et al., 2011, p.487) are similar to SCIFs which follow Islamic investment principles. The SCIFs' processes depend upon choosing companies that are not involved in particular industries, such as alcohol production (negative screening), but they not investing in companies that , for example, provide excellent working practices for their staff (Humphrey and Lee, 2011; Ballestero et al., 2012). SCIFs could use globalisation practices to their advantage by mimicking SRI funds and establish positive screening criteria to meet Islamic objectives. Globally, the most familiar ways to integrate environmental, social and governance (ESG) issues into investment practices is for SRI funds to use investment screening criteria and "best-in-class approaches and engagement with companies" (Sørensen and Pfeifer, 2011, p.60). Screening approaches include "either excluding companies (negative screening) or including companies (positive screening) in investment portfolios" according to a variety of ESG criteria. Positive screening can involve the recognition of companies that focus on renewable energy or clean technologies

(Sørensen and Pfeifer; 2011, Renneboog, 2011). Sparkes and Cowton (2004) propose that positive screening offers “the dual benefits of a commitment to sustainability plus the hoped-for financial benefits of investing in industries with significant long-term growth prospects” (p. 48). In a best-in-class approach, the investee companies within a similar sector are “compared and ranked in terms of their ESG performance” (Sørensen and Pfeifer, 2011, p.60). Accordingly, investments are made in companies with the best ESG performance (Michelson et al., 2004) and that will achieve financial and social justice goals. It appears that SCIFs are not making enough effort to establish positive screening criteria to meet their Islamic principles or promote social justice. The focus may only be on maximising profit, as an influence of globalisation and the West to compete with global financial institutions, for example, finance models assume that investors’ goals are to maximise their returns for an agreed level of risk to “achieve a mean-variant efficient portfolio” (Humphrey and Lee, 2011, p.2). This goal is achieved via holding a completely diversified portfolio of assets (Humphrey and Lee, 2011). Accordingly, Sharia compliant investment fund managers might think that, if they apply positive screening, they will not have a highly diversified portfolio and, as a result, may not achieve returns to compete against global conventional financial institutions.

However, fund managers may provide excuses for themselves for not applying such criteria in the Saudi market as there are no indices that support having socially responsible investment screening criteria, unlike the fund managers in the US and Europe who have different indices that support this trend, such as: the Domini social index (US), Citizen social index (US), Calvert social index (US), and Dow Jones sustainability group index (world). Such indices could be established in KSA to mimic good Western investment practices. In developed countries, SRI funds can use sustainability indices and benchmarks of companies’ performance on ESG issues, for example, the FTSE4Good Index (Sørensen and Pfeifer, 2011). Accordingly, it would be possible to establish such an index for KSA but this would need the initiative from influential groups of people, such as Sharia scholars and the Islamic financial institutions themselves, especially if it aimed to increase social justice in society. For example, fund managers' could utilise positive screens with a ''best in class'' approach, ranking firms from every industry according to social criteria, similar to SRI funds. The companies compromised in their portfolios would have practices that exceed the lowest levels of screening in each industry (Renneboog and Szilagyi, 2011; Becht et al., 2010; Renneboog et al. 2011). Furthermore, Sharia compliant funds could mimic SRI funds by participating in shareholder activism for the common good (see Lewis, 2010). Hence, fund managers could try to influence companies' behaviours by engaging in dialogue with management or by voting at annual general meetings (see Renneboog and Szilagyi, 2011; Becht et al., 2010; Renneboog et al. 2011). Also, fund managers can engage with companies about ESG issues and deliver their voice, and use their rights as shareholders, either individually or collectively to influence and increase social justice in society (see Higgs and Wildsmith, 2005; Sparkes and Cowton, 2004; Sullivan and Mackenzie, 2006). However, the dominant influence of globalisation in Saudi Arabia SCIFs appears to be profit maximisation and shows that positive screening is not a priority; consequently, the influence of social justice is slight.

Negative Screening Criteria

Table 7.7 covers the negative screening criteria in the T&Cs of the SCIFs in the KSA, reflecting social justice in Islam because they focus on eliminating investment in companies that has a negative influence on society. The frequency of words refers to the importance of this item to the SCIFs. To examine if the SCIFs fund managers are applying these negative screening criteria to have a social justice role, the consistency of the negative screening criteria between the T&Cs of the SCIFs will be examined. The absence of consistency will indicate that these negative screening criteria are not designed to foster social justice but only to have documents for marketing the SCIFs; in other words they are influenced by the negative side of globalisation.

Table 7.7
Negative Screening

	Items	Total Disclosure	No. of T&Cs
1	Alcohol	82	49
2	Gambling	69	48
3	Tobacco	62	50
4	Conventional financial banks/commercial banks/non Sharia compliant Financial services	54	48
5	Pork and its derivatives	50	50
6	Production and distribution of pornographic films	43	43
7	Use of non-Islamic financial instruments such as Futures contracts, options contracts, SWAPs and preferred stocks.	41	41
8	Satellite channels and cinemas/media/theatres and cinema industry	35	35
9	Hotels and places of entertainment that provide prohibited services/Management of casinos/Leisure	33	33
10	Restaurants that provide prohibited services	32	31
11	Traditional insurance companies	31	30
12	Production and distribution of meat not slaughtered according to Shariah rules	30	30
13	Weapon/Arms	22	22
14	Books and magazines/advertising[148]	21	21
15	Trading of gold and silver as cash on a deferred basis	16	15
16	Animal testing/Embryonic or Stem Cell research and cloning	10	10
17	Nuclear energy/nuclear weapons	0	0

Note: the table shows the negative screening criteria used in SCIFs in KSA. Total disclosure means: the number of times that specific item is repeated in all T&Cs. No. of T&Cs means: the specific item is repeated on only, for example, 49 T&Cs out of the total sample.
Source: SCIFs T&Cs in Saudi Arabia.

[148] Only if it is a product or contains stuff that is not in line with Islamic law.

As can be seen from Table 7.7, negative screening criteria were disclosed in almost all of the SCIFs, but the focus differed across the various T&Cs. Negative screening recognises ‘bad’ companies, in order to avoid investing in them (Kreander, 2001). According to Schwartz (2003), this type of screening is also referred to as ‘sin screening’ industries (Schwartz, 2003). Negative screening of Islamic financial institutions began because not many companies are Islamic or follow Islamic rules completely. For this reason, Sharia scholars started introducing parameters. For example, no companies in SCIFs may have any prohibited activity, such as alcohol, pork, gambling, entertainment, tobacco and armaments (see Elsiefy, 2008; Brown and Skully, 2009), and this is called negative screening. These companies may be harmful to society in both the short and long term, and may thus have negative consequences: in general, their activities are out of line with a fund’s values and beliefs (Kreander, 2001), and in this thesis’ context would affect social justice. Accordingly, SCIFs are very similar to SRI, as both use similar negative screening criteria (Siddiqui, 2007). The SCIFs in this study at least seem to be doing the minimum by applying (only) negative screening. Kreander (2001) called such funds commercial funds that merely wished to satisfy the beliefs of a few people without making any improvements to society.

The results show that SCIFs in KSA do not have consistency or a standard method for presenting their negative screening because these differed from one set of T&Cs to another. They differed in two aspects: i) the way in which they are presented to investors; and ii) the criteria differs from fund to fund. For example, some funds offer an explanation of their screening criteria while others merely mention the word. For example, as stated by the AlAhli GCC Trading Equity Fund, it could not invest in companies “Operating movie theatres and the cinema industry and creating, publishing, or distributing pornography” (p.11), but SAMBA Al Nafees Global Commodities Equity Fund has different T&Cs and provides a wider set of information because it defines each element, such as: "Cinema: companies engaged in the production, distribution and screening of films and television programs; owners and operators of television broadcasting systems and providers of cable services or satellite television" (p.23) and define pornography as "owner, producer and operator of adult products and activities". The difference in the presentation of negative screening criteria may not be important issue but it suggests that fund managers are only presenting that information to convince investors that the fund is Sharia compliant. For example, in one case, there were different negative screening criteria between the Arabic and English versions of the same fund's T&Cs. One example was Jadwa Africa Equity Freestyle fund which mentioned in its English T&Cs that the fund cannot invest in "books and magazines" despite books and magazines being Halal, but in the Arabic version its mentions "obscene books and magazines". Another example for the same fund was where its English version included "...trading of gold and silver as cash on deferred basis; weapon manufacturing and selling; stem cell / human embryos; genetic research (research firms, therapy clinics, etc)" while the Arabic version did not included this at all.

A further example is "HSBC GCC Equity Fund" where the T&Cs version in the HSBC website contains Sharia guidelines (negative screening) while the T&Cs of the same fund on the Tadawul website do not contain any Sharia guidelines at all, despite both being in Arabic. Thus, there is no care taken by fund managers to ensure that all their T&Cs are the same, giving the impression that they are not really important. As noted before, even though some financial institutions share the same SSB members, they disclose different screening criteria in the T&Cs of each fund. Also, the screening criteria disclosed are sometimes inappropriate for a particular market. For example, the HSBC Amanah Saudi Equity Fund's screening criteria mentions "Gambling and pornography" (p.18), but these two industries do not exist at all in Saudi, while the HSBC Amanah Europe Equity does not mention "pornography" as one of its screening criteria, although this is available in Europe. Hence again the impression is that these are boilerplate disclosures, which may not be even used in practice and purely for impression management (see Dhanani and Connolly, 2012).

Also, some of the T&Cs did not pay much attention to any screening as they did not mention any industrial screening criteria (negative screening), possibly because they had already identified their strategy to only invest in accordance with Sharia. For example, the Aqaar investment fund, one of Albilad Investment Co investment funds which are all Sharia compliant, does not mention any industrial screening criteria. Another example is the Arbah investment fund[149], which does not mention any industrial or financial criteria, possibly because the fund's focus is on new companies whose shares are not yet available to the public. Thus, there are no consistency of T&Cs especially with regard to negative screening criteria and hence no social justice. Hence the influence of globalisation on SCIFs T&Cs, is visible by adopting the practice of focusing on returns rather than considering the actual investment objectives or practices.

Financial Screening Criteria

Table 7.8 covers the financial screening criteria cited in the T&Cs of SCIFs in KSA which focus on eliminating companies that have a negative influence on society, similar to negative screening criteria, and hence related to Islamic principle of social justice.

[149] The only investment fund for Arbah Capital

Table 7.8
Financial Screening Criteria

	Disclosure	No. of T&Cs
1	Not specify the financial criteria	38
2	S&P Shariah financial criteria	20
3	No mentioned of any financial criteria	11
4	Dow Jones Islamic market financial criteria	4
5	MSCI global Islamic financial criteria	1
6	FTSE Shariah financial criteria	0
7	AAOIFI financial criteria	0
	Total	**74**

Note: the table shows the Sharia compliant indices and if SCIFs in KSA used their screening criteria.
Source: SCIFs T&Cs in Saudi Arabia and see appendices 7.3 to 7.7

In the past few years, as a result of the huge demand for Islamic investment, a number of Islamic indexes have been developed. These indices include companies that "passed rule-based screens for shari'ah compliance" (Jouaber, 2012, p.1). Accordingly, a company's stocks will be eligible to be included in the index if the company's activities are consistent with certain aspects of Islam. The screening works to eliminate companies that are non-Sharia compliant according to the industrial and financial criteria (Jouaber, 2012; Nainggolan, 2011). The findings show that the financial screening criteria differs from fund to fund, similar to the negative screening criteria. For this study, the researcher investigated if these financial criteria were chosen according to well-known global indices' criteria, and if criteria are disclosed. The financial screening criteria for companies to be included in the DJIM, for example, is that "total debt should be less than 33%, liquidity ratio should be 33% and interest income from cash and interest-bearing should not be more than 5% of the total income" (Jouaber, 2012, p.2) (see Appendices 7.3 to 7.7 for the financial screening criteria of different indices).

As shown in Table 7.8, most of the funds had financial screening criteria provided by global indices and were used to provide Sharia compliant investee companies: the S&P

Shariah index; the DJ Islamic market index; and the MSCI global Islamic index. No funds followed AAOIFI's financial screening criteria despite the fact that these have been issued by an organisation based in an Islamic country, or the FTSE Shariah financial screening criteria, possibly because both of these are stricter than other indices' financial screening criteria. Indeed, Western indices were used for more frequently as 20 funds followed the S&P Shariah screening financial criteria, four followed the DJ Islamic market index financial screening criteria and one followed the MSCI global Islamic index financial screening criteria. Eight funds that used the S&P financial screening criteria invested in Saudi Arabia, 3 in the GCC, 6 in Europe and the US, one in the Asia Pacific region and one in the Arabic market and hence the S&P financial screening criteria is not strict and offers a lot of verities between investee companies for local and international investment and that is the reason for its popularity between SCIFs. The funds that mentioned the DJ explained that the index was used as guidance. The DJ was used by four global investment funds run by the HSBC Amanah fund manager. The fund that used the MSCI financial screening criteria was "Al Nafees Global Commodities Equity Fund" provided by Samba capital. Thus, 11 out of the 16 funds that invest in Europe and the US use Western originated indices. Thirty eight funds used their own financial screening methods but some benchmarked these against the Western indices for measuring fund performance but not for screening. For example, the Jadwa GCC equity fund's T&Cs mentioned that "The benchmark for measuring the Fund performance is the S&P GCC Composite Shariah (TR) Index" (p.18). Also, 11 funds made no reference to their financial screening criteria at all. For instance, the CAAM Al Saffa Saudi Equity Trading Fund merely mentioned that "The Fund has been approved and is regularly reviewed by the Shariah Board of Banque Saudi Fransi" (p.13), without mentioning any screening criteria. The findings indicate that there is no obvious logic behind choosing financial screening criteria. Each fund manager has its own choice for using criteria that possibly works in their favour. Overall, the Western S&P

Shariah index financial screening criteria was used most frequently, demonstrating and shows the influence of the West on these funds' practices.

As noted earlier when comparing AAOIFI's and the Western indices in terms of financial screening criteria, AAOIFI's are slightly stricter but are not used by any funds. In general, the S&P and DJ are the most frequently used, may be because they are less strict and thus more companies will be Sharia compliant and hence the fund managers have more choice. For example, one of the S&P screening criteria is "Total Debt / Market Value of Equity < 33%" while the FTSE is "Debt < 33% of total assets". Therefore, dividing the total debt by the market value make more companies Sharia compliant as it reduces the debt ratio. Thus, the decision about which financial screening criteria may be to use taken according to which helps the funds have more investment opportunities and hence have better financial returns, and not focus on which are more compatible with Sharia concepts and increased social justice.

Despite Sharia screening being an important aspect of Sharia equity funds, whereby fund managers should:

> "provide full and fair disclosure of all material facts, including details of their Shari'ah investment screening process and framework which they are mandated to adhere to in their investment, as well as to deal fairly and honestly" (Nainggolan et al., 2011, p.2).

This information seems to absent from the KSA SCIFs' T&Cs (Obaidullah, 2005). According to Nainggolan et al. (2011), one of the reasons for this is that:

> "Shari'ah is not a set of codified laws but rather a set of interpretations based on the Qu'ran, the Sunnah, and the opinion and consensus agreement of scholars. It follows that judgments tend to be subjective and shaped by personal beliefs and cultural influences. This is further exacerbated by fund prospectuses not disclosing which interpretation of the Islamic law is being followed" (Nainggolan et al., 2011, p.2).

However, Nainggolan et al. (2011) explain that funds with superior disclosure do not inevitably have superior compliance, signifying that the fund managers may not always execute what they state in their prospectuses. On the other hand, funds that disclose more conservative criteria may be expected to stick more to their criteria (Nainggolan et al., 2011). Accordingly, Sharia compliant investment T&Cs in KSA should disclose more information about their screening to see how they truly reflect Islamic principles and Sharia concepts of social justice.

Further, SCIFs in KSA may need an index for ESG issues. As shown in Table 7.8, 25 SCIFs in KSA use Western based indices while AAOIFI's financial screening criteria, which is an Islamic agent, is not followed by any Sharia compliant funds. The huge pool of money in the GCC countries means that Western countries are eager to have a bigger share of that wealth. Askari et al. (2010) explain that the economic goal of globalisation is the "flows of capital and investment" between countries (p.1). These flows need to be achieved through uniting the regulations, cultures and ways of thinking (Askari et al., 2010). As a result, globalisation makes fund managers dealing with SCIFs similar to conventional ones, but SCIFs should possibly be independent of the Western world and establish their own investment criteria, to reflect Islamic principles and increase social justice.

7.3.4 Western Principles of Profit and Performance

This section is concerned with analysing the findings related to disclosing words that indicate a focus on maximising profit rather than having social justice objectives. Table 7.9 provides a summary of the items in this category and the total number of disclosures.

Table 7.9
Performance and Profit Terms in T&Cs

	Word	Total Disclosure	No. of T&Cs
1	Performance	830	73
2	Return (if it refers to financial returns)	267	73
3	Profit / profitability	244	67

Note: The table shows the words repeated in T&Cs

As shown in Table 7.9, the funds focus on performance, return and profit. The terms 'return' and 'performance' were mentioned in every single funds' objectives instead of one T&C, indicating that they were important to the funds. Nevertheless, looking for profit is legitimate in Islam and is a privilege for everyone except when it happens at the expense of ethics, morals and social justice, it twists into avarice because it will have a great effect on society (see Al-Qardwi, 1995). In addition, competition, hard work, and taking risks in business are important values in Islam, achievable only by adhering to the Islamic faith and promoting social and economic justice (see Askari et al., 2010). For example, the findings in section 7.3 in this chapter show a lack of focus on words referring to social justice concepts while this section's findings show that the spotlight is on words referring to performance, profit and financial returns. Thus, the absence of positive screening in SCIFs and the focus only on profit and financial returns might be one of the reasons for SCIFs' lack of a social justice focus that results from the influence of globalisation on SCIFs investment stakeholders that makes them adopt the Western investment paradigm.

The word 'performance' was the most frequently mentioned word, at 830 times, in 73 T&Cs as well as being mentioned in same funds' objectives; for example, the HSBC Amanah Saudi Freestyle Equity Fund mentioned that "…The performance of the fund will not be linked to a benchmark…" (p.8). The only T&Cs that did not mention the word 'performance' for unclear reason was 'KSB investment funds in Qataris Equties' T&Cs. Financial return was mentioned on 267 occasions in 73 T&Cs. The only T&Cs that did not mention the word ‘return’ for unclear reason, despite the T&Cs were detailed and mention the word ‘performance’ several times was ‘Alnifea T&Cs for Saudi equities’. For example, the AlAhli US Trading Equity Fund mentioned it in its fund objective:

> “Long term capital growth, the Fund seeks to achieve competitive returns during the medium to long term (5 years or more) through investing selectively in US companies that have low debt ratios and comply with the Fund’s investment strategy” (p.3).

Finally, the word ‘profit’ was mentioned 244 times in 67 T&Cs. The word profit was used to inform investors that the fund was not always going to make a profit due to investment risk. For example, the AlAhli Europe Trading Equity Fund mentioned that “Investors in the Fund are not certain to make a profit and may suffer a loss, and therefore may not recover their fully-invested capital” (p.4). The findings indicate that these items are for more important for SCIFs than anything related to Islamic principles or social justice; they are repeated more often than the words in the previous sections.

The focus on performance in the T&Cs is an example of how SCIFs mimic conventional Western funds. Islamic finance, in general, focuses on financial returns and ignores other aspects, such as social justice. This accords with Ariss’ (2010) finding, who explains that:

> “…Islamic finance mandates a return on capital. However, this return on capital depends greatly on the performance of the activity being financed. Risk-taking, and not the passage of time, justifies the return on capital” (p.102).

The focus on maximising profit in SCIFs is a result of the pressure from global financial institutions and investors. Jouaber (2012) explains that Muslim investors seek investments that both comply with Islamic ethics and, perhaps more importantly also offer acceptable performance. KSA Sharia compliant funds’ investors do not use globalisation’s advantages for SRI objectives, as global SRI investors play an important role in shifting the focus of companies towards having a better influence on society. In particular, SRI funds incorporate financial goals and social objectives into their criteria and so increase social justice (Renneboog et al., 2011). SRI funds also often offer investors adequate financial returns and performance. As Humphrey and Lee (2011) explain, SRI studies that focus on comparing the performance and financial returns of SRI with conventional investments find that there are no differences between them. The financial institutions in KSA can use positive screening, at least, as a business case “to attract socially and environmentally concerned customers and by beliefs that SRI delivers higher return on a given level of risk” (Jansson and Biel, 2011, p.2). Several studies that have explored SRI investment funds compared with conventional funds have shown that SRI themselves might also be financially motivated (e.g. Bauer et al., 2005; Kreander et al., 2005). The mentality of Islamic financial institutions remains undeveloped; just as at the start of SRI funds in Europe when there was disagreement about SRI funds which used negative screens, and the limited investment opportunities that caused whole industries to be excluded from the funds’ portfolios. Consequently, diversified portfolios with unconstrained investment opportunities are impossible (Hallerbach et al., 2004; Hong and Kacperczyk, 2009; Statman and Glushkov, 2009; Humphrey and Lee, 2011) but recently SRI funds’ growth has increased as a result of improvements in the investment approach of SRI funds. Thus, SCIFs could avoid the negative influences and adapt the positive influences of globalisation by applying positive screening criteria, to open up a new, untouched area of the KSA market and increase social justice in society, there should be no conflict between having social justice and providing investors with adequate performance and financial returns.

7.3.5 Role of the Regulatory Bodies

This section is concerned with analysing the findings related to the regulatory bodies in KSA that are involved in SCIFs and if any international Islamic regulatory bodies, notably AAOIFI, are mentioned in T&Cs. Following the regulations established by the Saudi

Arabia regulatory body the lack of focus on the social justice role of SCIFs might point to the influence of globalisation on the regulatory body. In the same vein, ignoring the regulations of the international Islamic regulatory bodies might also show that SCIF fund managers are not interested in social justice role. The Table 7.10 provides a summary of the items in this category and the total number of disclosures.

Table 7.10
Regulatory Body and Regulations

Word		Total Disclosure	No. of T&Cs
1	CMA/ CMA regulations	979	65
2	SAMA	56	24
3	AAOIFI	0	0

Note: The table shows the main regulatory bodies and regulations followed by the financial institutions in Saudi Arabia.

According to Table 7.10, most SCIFs in KSA adhere to the Saudi Arabian Monetary Agency's (SAMA) and Capital Market Authority's (CMA) regulations, which also cover conventional funds. As can be noticed, the CMA is the main regulator of funds in KSA. There are, however, very few specific regulations regarding SCIFs by CMA, which might be why the Sharia industry is underdeveloped with no screening criteria that serves society and social justice. The regulations regarding SCIFs are mentioned in Annex 1 in the "Requirements of terms and conditions" by CMA. The Annex mentions that Sharia based funds must disclose certain information, and is considered the minimum level of disclosure. The information that fund managers must disclose includes: (i) the Sharia committee members' names and their qualifications; (ii) the compensation for Sharia committee members and the source of this compensation; (iii) the criteria used by Sharia members to decide that it is compliant with Sharia principles (Investment fund Regulations). The regulations are thus very brief and focus only on SSBs and the screening criteria without any focus on Islamic principles or social justice. The regulatory bodies need to regulate SCIFs because the basis for them is Islamic law, which is based on the Quran (Szczepanowicz, 2011). The Quran asks people to act "ethically as well in a socially oriented manner" (Szczepanowicz, 2011, p.25) and focuses on the Tawhid, (the unity of God). The Tawhid ask for unity between religion and the state because the "state and religion must be the same in order for men to worship and obey only one power. There cannot be human laws or constitutions, only the Shariah, God's law" (Szczepanowicz, 2011, p.25). The content analysis findings show that it is important to have regulations and standards for SCIFs in KSA adhering to Islam and that would increase social justice and limit any negative influences of globalisation.

Establishing regulations for SCIFs should not be an issue because, in any case, all of the products of Islamic fund managers' investee companies should be compliant with Sharia law (Hearn et al., 2012). The need for regulation is important in decreasing contradictions between the fund managers as a result of the different interpretations of Islamic law. Ariss (2010) explains that, from an Islamic perspective, "A commerce law known as fiqh al-mu'amalat is the basis for the Islamic financial system" (p.102), and the main point of Islamic law is that it supports "social justice, equity, and fairness in all business transactions, and rests on the promotion of entrepreneurship, the protection of property rights, and the transparency and sanctity of contractual obligations" (p.102), as this is required by SCIFs too. However, Olson and Zoubi (2008) explain that the broad interpretation of the Islamic religion (Sharia) by scholars creates a conflict between Islamic financial institutions. For example, some products may be accepted in some Islamic financial institutions but not in others (Olson and Zoubi, 2008), and the regulatory bodies have failed to establish any laws regarding SCIFs. For example, some Sharia scholars prohibit investment in hotels or restaurants that serve alcohol, while others allow it, provided that it does not exceed a specified percentage (Nainggolan et al., 2011) and there are many examples of this from both Islamic and non-Islamic countries. It does not make sense that KSA has not established any regulations as a large percentage of funds are Sharia compliant. According to Ariss (2010):

> "The development of the Islamic finance industry coincides with progress in the legal, accounting and auditing, regulatory, and governance fronts. An architecture of institutions has developed to fuel the growth and development of the industry. In 1991, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) mandated the preparation of accounting, auditing, governance, ethics, and Shari'a standards. In 2002, the Islamic Development Bank based in Jeddah took the lead in establishing the International Islamic Financial Market (IIFM) in April, the Liquidity Management Center (LMC) in July, and the Islamic Financial Services Board (IFSB) in November of the same year. The IIFM has the mandate to take part in the establishment, development, self-regulation, and promotion of Islamic capital and money markets" (p.102-103).

So there are different experiences of establishing regulations for SCIFs. Thus, since there are no KSA regulations for SCIFs, the fund managers should follow, for example, AAOIFI's standards as it is specialised in Islamic finance. Also, currently three countries operate fully Islamic financial systems: Iran, Pakistan and the Sudan. These countries have established regulations for SCIFs (see Olson and Zoubi, 2008; Hearn et al., 2012; Ariss, 2010) and KSA regulators could learn from their experience. The content analysis findings show that the support for social justice by SCIFs in KSA should be mandated by the cooperation of Islamic financial institutions, governments and civilian organisations.

There is a growing indication that ESG issues influence shareholder value in the longer term, and that they are being addressed progressively more by the mainstream institutional investors[150] rather than by small investors (Sparkes and Cowton, 2004). Accordingly, institutional investors should play a role in the KSA market to support the imposition of regulations for positive screening and so increase social justice in society.

[150] Institutional investors are defined as: "A non-bank person or organisation that trades securities in large enough share quantities or dollar amounts that they qualify for preferential treatment and lower commissions" (Europeansforfinancialreform.org, 2014).

A major purpose of global networks is to facilitate a dialogue between investors and the policy community on issues such as climate change and ESG issues as in the United Nations Principles of Responsible Investment (UN PRI) (Sørensen and Pfeifer, 2011). As a result of these initiatives, several countries have established legislation that obliges funds such as pension funds to "publicly state the degree to which they take into consideration social and environmental aspects in their investment decisions" (Louche, 2010, p. 219). That type of cooperation is missing in KSA and the Islamic world, so it is important to have initiatives to support such issues and develop regulations governing the work of SCIFs to increase social justice in society.

The regulatory bodies in KSA may be reluctant to establish regulations related to SCIFs because it may be difficult to describe the mainstream activities of SCIFs' investment practices and broad choices are needed related to the financial, political, social and regulatory factors in this development (UNEP FI, 2005; Louche, 2010); for instance, ESG issues at present occupy a considerable proportion of global public debate. In the majority of constituencies there exists a wide understanding that weak performance on ESG issues may lead to greater financial, social and political costs, so non-governmental organisations (NGO) should be engaged in widening the public awareness of ESG in KSA and the KSA government can use electronic media, and social media, to increase the public consciousness of ESG issues. Further, in many "constituencies, regulation has been passed that requires companies to report on strategies and performance on ESG issues" (Sørensen and Pfeifer, 2011, p. 59). It is becoming more expected that companies might be affected by the reputational damage if ESG issues are not addressed sufficiently. Fund managers' are embracing a general investment belief that "good performance on ESG issues pays off over the longer term" (Sørensen and Pfeifer, 2011, p.60). Thus, the negative influences of globalisation are not what should be followed, globalisation can inform regulatory bodies in KSA positively to increase social justice.

7.3.6 Sharia Law versus Globalisation and the West

This section is concerned with analysing the findings related to globalisation's influence on KSA SCIFs. Table 7.11 provides a summary of the items in this category and the total number of disclosures.

Table 7.11
Globalisation's Influence

	Items	Total Disclosure	No. of T&Cs
1	Sharia law/Sharia guidelines/Sharia criteria/Sharia rules/Sharia Principles/Sharia Industry	589	73
2	Globalisation	0	0
3	Capitalism	0	0
4	West/US/UK/other	24	8

Note: the table shows the terms related to Sharia and economic globalisation.

As shown in Table 7.11, 73 of the 74 T&Cs mentioned that they followed Sharia law, but other words, such as Globalisation, Capitalism and Western countries, were mentioned 24 times, in eight T&Cs. The only fund that did not mention Sharia guidelines for investment was Saudi equities fund that was provided by Saudi Fransi capital, possibly because the fund already indicates in its T&C that it is Sharia compliant and mentions the SSB members' names, but it is confusing because Saudi Fransi capital has other SCIFs funds that invest in GCC and these funds T&Cs mentioned Sharia guidelines. Thus, finding differences between SCIFs T&Cs seems normal. Hence, this finding is similar to the earlier one whereby T&Cs are different in different fund's T&Cs despite have the same fund manager and same SSB. Considerable emphasis was placed in the T&Cs on the need to follow Sharia law. For example, the Alinma Saudi Equity Fund mentioned that "The fund T&Cs are following KSA laws and CMA instructions unless it is against Sharia law" (p.17). The T&Cs refer to Sharia law using different terms throughout, as shown in Table 7.11. However, when Islamic Law is mentioned in the T&Cs, it mainly means the Sharia industrial (negative screening) and financial criteria of investment because this tends to be the only reference to Sharia guidelines in any of the documents.

There was no mention of terms such as globalisation or the West, which is unsurprising, as this is not western terminology and such words rarely occur on conventional finance. Thus, SCIFs focus on profit maximisation, similar to conventional funds, and the absence of these words does not reflect the absence of globalisation’s influence. Sullivan and Mackenzie (2006) explain that, conventionally, mainstream financial institutions in equities have been hesitant to incorporate environmental and social factors in their investment choices and, at best regard them as, unrelated to their business (Sullivan and Mackenzie, 2006). A similar view is held regarding the SCIFs. The fund managers are avoiding social justice concepts to decrease investment risk and indeed may not believe in social justice screening criteria as a result of the influence of the competition financial system which has developed in Saudi Arabia as a result of globalisation.

The main driver of SRI funds can be seen from different aspects. Jansson and Biel (2011) explain that this type of investment is determined according to moral values and a true concern for social and environmental issues among investors and “hence, morally value driven investment is not unknown to investors” (Jansson and Biel, 2011, p.2). This is similar to SCIFs investors, as they invest in these funds because they believe that they are in accordance with Islamic law but, in reality, the financial institutions that provide SCIFs in KSA might be misleading the KSA investors by their frequent mention of terms such as Sharia law, Sharia guidelines, Sharia criteria, Sharia rules, Shariah Principles, and Shariah Industry (see Table 7.11), without mentioning globalisation’s influence on their actual practise. The influence of globalisation is obvious, as SCIFs focus on profit, performance and return (See Table 7.9). There was no attempt to reflect social justice in the T&Cs, as the funds merely wish to maximise profit. This might be a result of the long relationship with countries like the US and UK, which has caused Saudi Arabia to attempt to be a capitalist state (Wilson, 2004). This has lead them to adopt a Western investment culture, which is based on profit maximisation (Dunning, 2005) and hence SCIFs not increasing social justice.

7.3.7 The Sharia Supervisory Board's Role

This section is concerned with analysing the findings of the information about the Sharia Supervisory boards' role in evaluating the SCIFs in the KSA. The purpose of this section is to examine if the SSBs' of SCIFs play a role in SCIFs' focus on social justice, as they are major stakeholders. The frequency of words refers to the importance of the information disclosed with regard to the SSBs' by the SCIFs' T&Cs, especially with regard to the 'SSBs' working process' and 'SSBs' statement'. Thus, having more information disclosed will show that the SSB's have some engagement with the funds, thus, SCIFs will have a greater social justice role and globalisation's negative influence will have a lesser role, and vice versa. However, the influence of globalisation on SSBs can be deduced, if there are words related to financial rewards to the SSBs' and not their influence on social justice. Table 7.12 provides a summary of the findings about the SSBs' disclosure. This section is related to section 7.3.8 as well.

Table 7.12
Sharia Supervisory Boards

	Items	Total Disclosure	No. of T&Cs
1	Sharia committee/Sharia group/Sharia board	636	73
2	SSBs' members names	73	73
3	SSBs' members experience	70	70
4	SSBs' members financial rewards	14	14
5	SSBs' members responsibility	3	3
6	SSBs' members statements	1	1
7	SSBs' members ages	0	0
8	SSBs' members working processes	0	0
9	SSBs' members meeting information	0	0

Note: The table shows the information disclosed about the SSBs SCIFs in KSA.

It is important to understand that Sharia supervision of SCIFs is a form of advocacy, guaranteeing to investors that the Islamic financial institution can be trusted. Investors are assured that their money is in funds that are operated in accordance with the teachings of Islam and fulfils both financial and social justice goals. The function of the SSBs in SCIFs might be thought of as being similar to that of an independent financial auditor, but there is an additional, more fundamental aspect of the role of a Sharia supervisory board (DeLorenzo, 2002) because they examine both financial and non-financial information. Their focus should be related to all aspects of Islam that improves society and fulfils social justice. SSBs have a greater influence than simply reviewing stock choices for investment funds and their roles have a great influence on funds' influences on society and social justice.

The result in Table 7.12, shows that the term 'SSB' was repeated 636 times in 73 T&Cs, which indicates the importance of the SSBs to funds. The only fund that did not mention SSB was 'Shuaa Capital Saudi Arabia Equities', however, this fund had the poorest T&Cs of all funds in terms of disclosing information for this study. Also, this fund manager is no longer available on the Tadawul website as fund manager for reasons unknown[151] (Tadawul, 2013). The most information in the documents was the SSB members' names (the SSB names and its influence in funds are discussed in more detail in section 7.3.8). These were mentioned in 73 T&Cs and, their experience was also mentioned in 70 T&Cs. Nonetheless, very little other information was disclosed in the T&Cs; for example, the SSB's financial rewards were mentioned in only 14 funds, their role in only three and their statement about the fund in merely one T&Cs. There was no disclosure of their age, working process or meeting information. The SSBs responsibilities were mentioned only in three T&Cs. Regarding the SSB's responsibilities the Falcom IPO fund T&Cs, for example, described these as:

> "Particularly, the Sharia Board of the fund will undertake the following responsibilities:1- Study and review the investment objectives and policies of the Fund and ensure Sharia compliance; 2- Advise the Fund Manager, upon its request, on issues related to the Sharia compliance; 3- Provide advisory in determining Sharia criteria for screening stocks, companies or any other investments either in Primary or Secondary markets, where the Fund is expected to invest; 4- Periodic monitoring of the Fund to ensure compliance with Sharia requirements; 5- Provide a Sharia compliance opinion, which will be incorporated into the Annual Report" (p.21).

That is similar to what Szczepanowicz (2011) explains about the main work of SSBs, which includes:

> "…certifying permissible financial instruments through fatwas (ex-ante Shariah audit); verifying that transactions comply with issued fatwas (ex-post Shariah audit); calculating and paying zakat (a tax on wealth) to charity; disposing of non-Shariah compliant earnings; and advising on the distribution of income or expenses among shareholders and investment account holders. The Shariah Supervisory Board also issues a report to certify that all financial transactions comply with the above mentioned principles" (Szczepanowicz, 2011, p.28).

[151] The last news issued by Tadawul was in 9/9/2012 said that "Shuaa Capital Saudi Arabia Company had requested the approval to amend its business profile by cancelling its Dealing as Agent activity. The CMA Board of Commissioners issued a resolution approving the amendment of the Business Profile of Shuaa Capital Saudi Arabia Company by cancelling its Dealing as Agent activity. Shuaa Capital Saudi Arabia Company is now authorized to conduct Dealing as Principal & Underwriter, Managing Investment Funds, Managing Client Portfolios, Arranging, Advising and Custody" (Tadawul, 2013).

According to the responsibility of the SSBs, as mentioned in the T&Cs and the literature, it appears that there is nothing about the development of funds or increasing their influence in society and fulfilling social justice. Adherence to Sharia principles is the financial institutions' SSBs' responsibility (Walkshäusl and Lobe, 2012) because their main responsibility is that each one "approves proposed companies and monitors the compliance of their business activities with the guidelines of the Sharia" (Walkshäusl and Lobe, 2012, p.1). As a result, their responsibility should expand and cover social justice aspects because it is essential in Islam. Regarding the SSBs' statement, there was only one fund that mentioned it, as follows:

> "The Sharia committee of Alnifea investment group review documents relating to the establishment of Alnifea investment Saudi Trading Equity fund which aims to fully and comprehensive investment in shares of companies listed on the Saudi stock market and in short-term investment tools, which meet the criteria and the legitimate requirements specified by the Sharia Board of the Fund. The Sharia Board confirm that the applying of Shariah law standards requires that the fund manager get rid of the income arising from illegal sources, if any, and spending it in the charity. The fund manager committed and the parties associated with his administration of the fund to abide by the verdicts and the legal principles specified by the Shariah Board and ensures the implementation of all necessary policies associated with choice and selection of stocks that are compatible with the provisions and legal principles adopted by the Shariah Board of the Fund and its follow-up ongoing" (Alnifea, T&Cs)

The statement did not give much information and is simply a broad description of the SSBs' work. The statement also limits the SSBs' work to only what is necessary or, in other words, to doing only the minimum work. SSB scholars are considered a knowledgeable and competent group with regard to Sharia law so they should have a broader responsibility and try to fulfil social justice. The opinions issued by SSBs are considered a legal opinion, known as a fatwa. It is possible to find contradictory fatwas on the same issue, because "it is a legal opinion and therefore should be considered as legal doctrine" (Szczepanowicz, 2011, p.28). Accordingly, they have the power to improve their funds' screening and objectives. The SSBs' opinion must be respected and followed by the financial institution. Most investment decisions that are made by SCIFs investors depend on these Sharia scholars' opinions because a lot of Muslims want only to invest in Islamic equity funds (Hayat and Kraeussl, 2011). The fund managers and SSBs do not want to get involved in developing the industry, possibly because more work by SSB means more money to pay them and hence less profit. It is possible that globalisation has influenced SSBs, because the scholars are taking financial rewards but there is very little disclosure about what they are really doing to deserve this.

From the practical perspective, each Islamic financial institution, in their daily transactions, are guided by an SSB (Rammal, 2006), which consists of knowledgeable "Islamic jurists, scholars and academics" (Islamic-banking.com, 2013). The day-to-day transactions are reviewed by the SSB, as follows:

> "Firstly, in the increasingly complex and sophisticated world of modern finance they endeavour to answer the question on whether or not proposals for new transactions or products conform to the Shariah. Secondly, they act to a large extent in an investigatory role in reviewing the operations of the financial institution to ensure that they comply with the Shariah" (Islamic-banking.com, 2013).

Sharia scholars advocate that their role is important. Shaikh Yusuf Talal DeLorenzo, the top Islamic finance scholar,[152] states that, "unless a financial product or service can be certified as Shariah compliant by a competent Shariah supervisory board, that product's authenticity is dubious" (Islamic-banking.com, 2013), so the fund must always have SSB but the SSB's work is not clear and they pay little attention to key Islamic principles or social justice. According to OICU–IOSCO (2004), Islamic investment principles are based on "social justice, equitability, and fairness as well as practicality of transaction" (p.6). Usmani (2007) explains that "according to the Islamic principles, all business transactions can never be separated from the moral objectives of the society". Greuning and Iqbal

[152] Yusuf Talal DeLorenzo is a well-known and respected Shariah advisor and Islamic scholar. He is currently Chief Shariah Officer and Board Member of Shariah Capital Inc, USA, Member of The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Board (AAOIFI, 2013).

(2008) note that “the foremost priority of Islam and its teachings on economics is about ‘Justice and Equity’” (p.5). The SSBs know and understand the importance of social justice from the Islamic perspective, but they are not ensuring that SCIFs meet this objective. The influence of globalisation might be a reason for this, as some of these scholars are members of many boards, and are paid handsomely for this (see Tables 7.12 and 7.13) as discussed in the next section.

7.3.8 Sharia Supervisory Board Members

This section analyses the findings of the SSB’s members. Descriptions of the main names, their experience and their situation in society are followed by a critical analysis of their disclosures in T&Cs. The purpose of this section is to examine the frequency of the SSBs’ name in SCIFs prospectuses as the frequency of a few specific names might refer to their dominance on the SSBs’. Thus, the power for the SCIFs to have a social justice role will diminish if the SSB members work for many funds, which will make it hard to impose social justice and vice versa. In the same vein, the influence of globalisation can be deduced also as, if a few names are on many SSBs, they will get financial rewards for each, reflecting capitalist ideals of greed and money. Table 7.13 provides a summary of the SSB’s members’ names, the number of T&Cs that SSB member’s name repeats on it and number of financial institutions that these funds are work under.

Table 7.13
SSB's Main Names in KSA Investment Funds

	SSB Member	No. of Funds (T&Cs) SSBs on it	No. of Financial Institutions
1	A	51	11
2	B	48	10
3	C	36	7
4	D	15	3
5	E	9	4
6	F	8	1
7	G	8	1
8	H	8	1
9	I	7	2
10	J	4	1
11	K	4	1
12	L	4	1
13	M	4	1
14	N	1	1

Note: the table shows the most frequent names of SSB members in KSA SCIFs.

As can be seen from Table 7.13 the first four names sit on many SCIFs SSBs in KSA, and are very well-known in KSA society. SSB (A) is a well-known scholar both in KSA and worldwide. He is considered "one of the world's most distinguished scholars in Islamic economics".[153] In addition, he has experience as an Associate Professor and former Director of the Centre for Research in Islamic Economics at King Abdul Aziz University, is an expert in Islamic Jurisprudence Academy (OIC), and Advisor to several Islamic Institutions, including HSBC Amanah, as well as being the author of various books on Islamic Banking (HSBC Amanah Saudi Equity Fund T&Cs, 2008). SSB (B) is a famous scholar in KSA as well. He is a member of the Supreme Judiciary Committee of Saudi Arabia, Former President of the Makkah courts, advisor to several Islamic Institutions and the author of various books on Islamic Banking (HSBC Amanah Saudi Equity Fund T&Cs, 2008). SSB (C) is equal to the first two, as he is a Member of the Supreme Judiciary Committee of Saudi Arabia, former chairman of the comparative Fiqh Department at

[153] AlAhli Emerging Markets Trading Equity Fund Terms and Conditions (p.9).

Immam Mohd. Bin Saud University, advisor to several Islamic Institutions and author of various books on Islamic Banking (HSBC Amanah Saudi Equity Fund T&Cs, 2008). SSB (D) is rector of Al-Imam Muhammad Bin Saud Islamic University and Director General of the Panel of Scientific Miracles in the Quran and Sunnah (AlAhli Emerging Markets Trading Equity Fund T&Cs, 2008). The fifth name is also a well-known scholar who has built his name among investors and Islamic financial institutions in KSA. He holds a doctoral degree with First Class Honours from the Department of Comparative Jurisprudence of the Higher Institute for the Elimination of the Kingdom Saudi Arabia. In addition, he is a member of International Islamic economy and finance, the Assembly of Muslim Jurists in America, the Advisory Board for the Centre for Excellence in Jurisprudence of contemporary issues, the Assembly jurisprudence Arabia, and a member of many financial institutions both locally and internationally. He has published dozens of scientific research papers and attended many international conferences on Islamic finance and economic development (Bakeet investment fund T&Cs, 2011).

As can be seen, these top scholars in the field of SCIFs have a very high profile that gives them credibility among investors in KSA. There is no doubt about the enormous influence of these SSB members in Islamic financial institutions and SCIFs. Bassens et al. (2011) explains SSB members as follows:

> "First, on the actor-level, an analysis of the interlocking activity of Shari'a scholars has shown that there is evidence for the existence of a transnational Shari'a elite. These scholars are experts in Islamic law and have considerable (religious) authority throughout the ummah. Mainly as a means to enjoy customer credibility, both fully-fledged IFS firms and Islamic windows within and beyond the Middle East, employ these renowned scholars to sit on their Shari'a boards. As such, these high-profile scholars not only exert power through traditional fatwas, but they actually shape the face of a globalizing IFS sector as well, through their role in product screening and innovation" (p.101-102).

According to AAOIFI, each Islamic financial institution should contain at least three qualified scholars. Also, they must be independent in order to have integrity in the community, and should not have any interest in the institution of which they are an SSB board member. This condition might not be achieved by funds as SSB members accept financial rewards according to the findings in Chapter 6 and (see Table 7.12), as disclosed in some T&Cs, that may influence their independence. According to Szczepanowicz (2011), if the SSB members receive a salary or hold a position in the financial institution, accordingly "the employment status may affect the required" impartiality and their opinions may no longer be regarded as unbiased (Szczepanowicz, 2011, p.30). In addition, although these scholars are qualified according to their experience, it seems impossible for one person to help supervise 51 funds besides their other jobs and positions they hold, as can be seen from their profiles. Accordingly, being a member of several SSBs might affect the level, nature, quality and credibility of these SSBs and the scholars themselves and may explain why their influence on fund managers to improve and fulfil social justice is limited. The fact that some scholars work for many different funds might indicate the influence of economic globalisation, as they take and accept financial rewards and work around the world. Also, the fund managers try to hire prominent scholars in order to increase the fund credibility and attract investors hence to achieving profit maximisation. This goal is clear in most of the SCIFs' objectives. For example, in the AlAhli GCC Growth and Income Fund's T&Cs, the fund objective is:

> "The Fund seeks to achieve long-term growth and income distribution through primarily investing in GCC dividend paying companies listed equities and other Shariah compliant companies with good potential growth in earnings and cash flows" (p.3).

However, to ensure that Islamic financial institutions follow Islamic law, fund managers also have Sharia auditors that review all transactions to ensure that they are in compliance with Sharia law, as most of these scholars do not have the time to review everything because they supervise a lot of funds and have other jobs. The Sharia auditor's work includes issuing a report at the end of the year to confirm that all transactions comply with Sharia law, and:

> "certifying permissible financial instruments through fatwas, 2) verifying that the transactions comply with issued fatwas, 3) calculating and paying Zakat, 4) disposing of non-Sharia-compliant earnings and, 5) advising on the distribution of income or expenses among shareholders and investment account holders" (Grais and Pellegrini, 2006, p.17)

The Sharia committee's work is very similar to that of the Sharia scholars; in other words, they are doing the Sharia scholars' job. Thus, the Sharia scholars' role in SCIFs is limited and they might not be independent. They may not take in to consideration Islamic principles or the role of funds to fulfil social justice. This may be the result of globalisation which has shifted their focus towards maximising financial rewards and not taking social justice issues into consideration.

7.4 Discussion and Conclusion

This chapter analyses SCIFs T&Cs in Saudi Arabia and their impact and role in increasing social justice in society. The chapter tries to find out if SCIFs T&Cs concerns about social justice, and whether globalisation has an influence on its content. This chapter answers the second part of second and third research questions. The findings of the T&Cs content analysis is similar to the findings obtained from the interviews and shows that SCIFs in Saudi Arabia disjointed and decoupled from Islamic principles and do not fulfil a social justice role in society. Also, it was demonstrated throughout the chapter that globalisation has influenced the Saudi financial system and Saudi Arabia SCIFs.

The findings show that SCIFs T&C's, however, do not focus on words that reflect Islamic practices of social justice. Thus, social justice is not reflected in SCIFs T&Cs. The most frequent Islamic word mentioned is Riba but other words refer to social justice role by

SCIFs such as accountability are not there or are barely mentioned. The results confirm there is a complete absence of any positive screening criteria, despite this reflecting Islamic belief in fund practices. Obaidullah (2005) notes that most of this detailed information is absent from SCIFs' prospectuses and annual reports (Obaidullah, 2005) and hence affects the influence of social justice on their practices as they are invisible and that is similar to the findings in the second piece of empirical work that social justice concepts are disjointed an decoupled from SCIFs. In the same vein, Nainggolan et al. (2011), one of the reasons for that absence is that:

> "Shari'ah is not a set of codified laws but rather a set of interpretations based on the Qu'ran, the Sunnah, and the opinion and consensus agreement of scholars. It follows that judgments tend to be subjective and shaped by personal beliefs and cultural influences. This is further exacerbated by fund prospectuses not disclosing which interpretation of the Islamic law is being followed" (Nainggolan et al., 2011, p.2).

Similarly, fund managers in Saudi Arabia only focus on negative screening, as shown in the findings, and is emphasised by the Sharia scholars, who do not try to push financial institutions to undertake positive screening. Indeed, few even know about it because most SSBs members have knowledge of the Islamic religion but not of finance as mentioned on SSBs members profile in T&Cs. SSBs members can be blamed as they do not put enough effort in to directing financial institutions to adapt Islamic principles because they make a lot of money by working for a lot of funds, and do not spend the time even though they are the most knowledgeable people about social justice. Therefore, globalisation has influenced the focus of SCIFs T&Cs.

The difference in the T&Cs of the same fund managers and sometimes of the same fund between the Arabic and English version, makes T&Cs untrustworthy, and they do not reflect the basic concepts of social justice. In the same vein, the T&Cs do not embrace Islamic concepts of social justice such as positive screening, but focus on performance and financial returns. In addition, using Western indices, and by not providing satisfactory information about SSBs members, these SCIFs do not have any focus on social justice. Iqbal (1997) notes that the Western financial system is very different from the Islamic financial system "because of the different nature and treatment of financial instruments" (Iqbal, 1997, p.44), and that can cause many contradictions when Western countries work to develop Islamic finance. The Islamic financial system should focus on social justice (Ariss, 2010; Askari et al., 2010) because "a commerce law known as fiqh al-mu'amalat is the basis for the Islamic financial system" (see Ariss, 2010, p.102). Thus, it considers issues of social justice, equity, and fairness in all business transactions (see Ariss, 2010). Thus, social justice is not reflected in SCIFs prospectuses and globalisation has influenced the focus of SCIFs prospectuses.

The Western capitalistic influence in Saudi Arabia has built a culture of maximising returns (see Humphrey and Lee, 2011) therefore fund managers consider positive screening as an impediment to this objective. Nevertheless, the benefits from globalisation are not reflected in SCIFs as they are only trying to compete with, converge with and mimic conventional funds, but do not mimic the positive features of SRI screening criteria such as screening criteria. Askari et al. (2010) note that:

> "Whether Islam embraces financial globalisation or not will depend on the extent that globalisation supports Islamic values and goals and, even more importantly, on the ability of Islamic governments to develop polices and institutions to benefit from globalisation, while minimizing the effects that are not compatible with Islam" (p.26).

The SCIFs' T&Cs are influenced negatively by globalisation and have become too similar to conventional ones; they focus on profit maximisation and not on social justice. Even though competition, hard work, and taking risks in business are important values in Islam, this is only by adhering to the Islamic faith and promoting social and economic justice (see Al-Qardwi, 1995; Askari et al., 2010). According to the findings in this chapter, as a result of globalisation, SCIFs in Saudi Arabia adopt very similar investment styles to the West, but badge them under a different name.

No doubt Saudi Arabia has been influenced heavily by globalisation with its oil reserves and strong economic and political relationships with the USA and UK (see Fox et al., 2006). One of the consequences of that relationship is adopting American and British finance and accounting models in Saudi Arabia practices, and that has influenced Islamic finance as well. Thus, globalisation has caused SCIFs not having positive screening criteria to fulfil social justice and hence not having a social justice focus. This chapter answered the second part of second and third research questions that related to social justice and globalisation influence on SCIFs T&Cs. The next chapter presents a general discussion and conclusion.

Chapter 8

Discussion and Conclusion

8.1 Introduction

This thesis investigates the perceptions and understanding of various stakeholders towards social justice by SCIFs. In particular, the focus is on the concepts and practices of social justice in the SCIF industry in Saudi Arabia and the factors that have impeded social justice. Perceptions are examined based on the general literature of SCIFs, SRI and the Saudi Arabia context. Thus, this final chapter focuses on two concerns. First, it seeks to critically analyse and discuss the overall findings of this study in relation to the research questions and, second, to outline ways of moving towards the betterment of society and social justice in Saudi Arabia through the practices of SCIFs. Section 8.2 provides a summary and critique regarding the main arguments discussed in the previous chapters. Section 8.3 offers the main empirical findings in the light of the critical theoretical framework. Section 8.4 provides the contribution to knowledge, 8.5 discusses the limitations of the current research, 8.6 suggests avenue for future research, and 8.7 are the concluding final thoughts.

8.2 Summary of the Research

The main concern of this research, in the light of postcolonial theory, is to examine the influence of globalisation on the social justice aspect of Saudi Arabia SCIFs and answer whether globalisation has impeded their social justice focus. This study finds that SCIFs concentrate on financial returns alone, ignoring other aspects such as social justice. To increase social justice in society this study: i) explores stakeholder perceptions and the understanding of social justice; ii) explores the current practices of SCIFs in Saudi Arabia; iii) critically investigates and examines the reasons and factors that impede SCIFs from reflecting social justice in society; and iv) seeks ways to improve current practices to increase social justice in society.

To achieve this goal, this study explores the social, political and economic environment of Saudi Arabia in chapter two, together with the current SCIF rules and regulations in Saudi Arabia. Chapter three provides a literature review of Islamic law and the main Islamic concepts of social justice. It discusses the literature about SCIFs and, to enrich the study, the SRI funds literature is added. The lack of literature about SCIFs and the similarity between SCIF and SRI funds was the main reason for including the literature about SRI funds.

A radical form of critical theory was outlined in chapter four to critique the negative influence of globalisation on developing countries and hence its possible negative effect on SCIFs. As Islam is concerned with ethics and human dignity, SCIFs should concentrate on the Islamic concepts of social justice and make society a fairer and more just environment. Thus, the critical framework is used to understand and analyse the goals of this study.

The critical theoretical framework is extended to integrate the debate from postcolonial theory, in the light of globalisation. Chapter four elaborated on postcolonial theory, explaining its position in relation to globalisation and how it is considered as a new form of colonialism[154]. Postcolonial theory in finance and accounting research is used to provide a critique of the problematical issues identified, such as the validity of Western finance and accounting practices, and can be used to critique Islamic finance to provide different understandings of:

> "other sets of economic and social practices and second, they push us to reconsider or 'provincialize' our understandings of normative, hegemonic economic practices and knowledge's, including 'conventional' banking and finance" (Pollard and Samers, p.313, 2007).

[154] There are two types of colonialism: (i) mind colonialism and (ii) military colonialism. Saudi Arabia is influenced by the first one

Critical theory is applied to investigate the social justice of SCIFs to improve society and, at the same time, whether SCIFs have been influenced positively by globalisation.

Chapter five addresses the research methodology and methods that have been used to collect the primary data for this thesis. The methodology of this thesis is based on the framework produced by Burrell and Morgan (1979). According to Burrell and Morgan (1979) this study adopts the subjectivist approach with a radical humanist paradigm which aims to achieve a revolutionary change in society and is what this study seeks for SCIFs. According to the research methodology and for achieving the goal of this study two qualitative research methods were employed in chapters six and seven. The first empirical method was semi-structured interviews, conducted face-to-face, with a number of Saudi fund managers, Sharia Supervisory Boards Members, regulatory bodies and individual investors. The aim was to understand their perceptions, opinions, attitudes and vision regarding social justice through SCIFs in Saudi Arabia and their current practices in the light of globalisation's influence. The second empirical task is a content analysis of SCIFs' T&Cs (prospectuses) in Saudi Arabia. The main concern of this chapter was to critically analyse: (i) Western and global influences on SCIFs; and (ii) whether SCIFs' T&Cs disclosures and screening criteria contain and reflect any Islamic concepts of social justice or mainly focus on financial returns. The findings of these empirical chapters were analysed according to a critical theory framework that focuses on the betterment of society through social justice.

The challenge is to bring in new radical insights for SCIFs through researching different cultures other than Western ones. In this regard, chapters three and four incorporate social justice concepts in Islam and how these impact on Islamic society and Islamic business and finance. They demonstrate how Islamic concepts of social justice, such as equality, fairness, Takaful, brotherhood, mercy, Zakat, and Sadqa, can be reflected by SCIFs in society. The following sections will discuss critically the key findings of the empirical research conducted for this thesis and answer the research questions.

8.3 Social Justice and Sharia Compliant Investment Funds: Empirical Findings

This section discusses the main finding and ties them in the research questions. This thesis addresses the following research questions:

1. *Should SCIFs in Saudi Arabia have a social justice role?*
2. *What are the perceptions of SCIFs' stakeholders in relation to social justice and is social justice reflected in SCIFs prospectuses (T&Cs)?*
3. *What are the perceptions of SCIFs' stakeholders in relation to globalisation and has globalisation influenced the focus of SCIFs prospectuses (T&Cs)?*
4. *Which factors (if any) hinder SCIFs from having a social justice role in Saudi Arabia?*

The following sections summarise the findings that answer these questions from both pieces of empirical work. The first empirical chapter, chapter six, was face-to-face semi-structured interviews with 15 fund managers, 4 SSB members, 4 investors, and one regulatory body. The second empirical piece of work was a content analysis of 74 T&Cs of equity SCIFs in KSA.

8.3.1 The Social Justice Role of Sharia Compliant Investment Funds

This section discusses the evidence collected from the empirical work to answer the first research question: "*Should SCIFs in Saudi Arabia have a social justice role?*" As SCIFs are based on Islam, Islamic concepts should be reflected in practice but the interviewees and content analysis findings indicate overall that SCIFs do not focus on social justice in KSA society.

The findings from the interviewees show that SCIFs do not have a social justice role at all. Indeed, most of the interviewees noted that the current role of SCIFs in social justice was weak; SCIFs were purely profit seeking. There was wide agreement across all interviewees that the Islamic concept of social justice is not part of SCIFs and provides evidence that there is no developing of SCIFs social justice practices despite SCIFs being based on the Islamic religion. The interviewees explained that social justice was missing in daily life, and as a result, it was missing in SCIFs as well. Social justice is part of society's religion and is supposed to be reflected in people's practices, including SCIFs but this is not happening. The results from the interviewees suggest that SCIFs exist because of: demand from investors; SCIF's profitability; and competitive and market trends. Religious morals did not feature at all. SCIF assets have grown rapidly in recent years, as it has been a profitable business for financial institutions. Thus, the interviewees thought that Islamic religious teachings were disjointed and decoupled from Islamic finance practices, as most social justice concepts in Islam were not applied in SCIFs.

In the same vein, the evidence from the content analysis also indicates that there is little social justice focus among the SCIFs. Further, the SCIF's T&Cs do not mention any positive screening criteria, such as the environment, health and humanity, despite the fact that most of such positive screening criteria are in line with Islamic principles; instead, they focus on terminology that considers the basis of the Western financial system such as performance, profit and financial returns. Thus, the evidence from both empirical works show that SCIF practices are disjointed from social justice and that Islamic finance is not based on Islamic rules. One of the main goals of Islam is to increase social justice, taken as a whole, including by SCIFs, as Sharia includes all of life's activities.

8.3.2 Stakeholders' Perceptions about Social Justice

This section discusses the evidence collected from the two empirical works to answer the second research question: "*What are the perceptions of SCIFs' stakeholders in relation to social justice and is social justice reflected in SCIFs prospectuses (T&Cs)?*" As social justice is disjointed from SCIFs, the stakeholders' understanding about social justice appears to be important to diagnose what hinders any social justice focus by SCIFs.

The majority of the interviewees have an understanding of social justice and confirmed that it is important for people's lives including social justice concepts of Islam, such as Takaful, brotherhood, fairness and equality, mercy, Zakat and Sadqa. Unfortunately, not all of these concepts form part of the daily activities of SCIFs. The interviewees believed in social justice as vital for the development of society but the rationale that social justice concepts could be used by SCIFs to improve social justice was absent. The interviewees suggested that this was because people did not follow the spirit of Islam in any of their business dealings.

In the same vein, the findings from the second empirical chapter show that there is few mention of words related to social justice in the T&Cs of SCIFs. The Islamic religion contains evidence about requiring social justice in investing but this is not even considered when SCIFs are first established. The results suggest that SCIF stakeholders have decoupled social justice from SCIFs. Therefore, an understanding of social justice does not filter through to the actual practises of SCIFs.

8.3.3 Stakeholder Perceptions of Globalisation

This section discusses the evidence collected from the two empirical pieces of work that answer the third research question: "*What are the perceptions of SCIFs' stakeholders in relation to globalisation and has globalisation influenced the focus of SCIFs prospectuses (T&Cs)?*" In the first empirical chapter, the interviewees expressed their opinions about globalisation and reflected that it had influenced SCIFs as the world had become a small village, and that KSA society itself was influenced by globalisation. In general, the interviewees' perceptions of globalisation were that it was positive and could enhance social justice by SCIFs in some ways, for example, KSA investment; culture; technology and education.

However, the findings also suggest that some interviewees perceive globalisation as influencing fund managers, SSBs members, investors, regulatory bodies and investee companies badly. The findings suggest a variety of reasons for this including a perception that because Western countries are the best at everything they should be followed, ignoring Islamic principles, as the Western culture is not the same as Islamic culture. For example there is a focus on profit, as economic globalisation depends on capitalism which focuses on maximising profit. As a result of the penetration of this approach in society, it has affected the focus of SCIFs.

In the same vein, the results of the second piece of empirical work shows that SCIFs T&Cs do not reflect Islamic concepts of social justice, and they have the fingerprints of globalisation. For example, the Western conventional financial system focuses on financial returns and the findings from SCIFs T&Cs show that the focus is on terms such as 'financial returns' and 'performance' but no focus on words related to social justice such as using positive screening. Similarly, the T&Cs confirm that some SSB members work with financial institutions and supervise many Sharia compliant equity investment funds, that makes them unable to fully check each fund’s compliance and they do this for financial rewards, with the objective to make themselves rich and famous. Further, Western indices such as S&P are used for guidance, while screening guidance issued by organisations based in Islamic countries, such as AAOIFI, are ignored. Overall, globalisation dominates SCIFs T&Cs with their focus on profit maximisation, ignoring non-financial Sharia guidance, and leading to a lack of focus on social justice.

8.3.4 The Impediments to Social Justice

This section discusses the evidence collected from the two empirical pieces of work to answer the fourth research question “*Which factors (if any) hinder SCIFs from having a social justice role in Saudi Arabia?*” The first major factor is that of no positive screening.

8.3.4.1 Absence of Positive Screening

One of the impediments to a focus on social justice by SCIFs in KSA is that of not using positive screening; SCIFs focus on financial returns and hence use less strict screening criteria. One factor for not using positive screening is the ignorance of fund managers about positive screening and their sole focus on negative screening, despite the fact that positive screening is used by Western SRI investment funds, and positive screening criteria can meet Islamic concepts of social justice, as demonstrated in chapters six and seven, but conventional, not SRI, Western investment funds’ processes dominate.

A second factor that inhibits social justice is that most fund managers have, or still run, conventional funds or work in financial institutions that offer both types of fund. Thus, screening criteria mimics the other funds and has not been developed into positive screening for SCIFs, as is the case for SRI investment funds. Thus, the absence of positive screening by SCIFs hinders social justice.

The findings show that negative screening is used widely by the SCIFs, especially for financial screening because fund managers with the approval of SSBs, use filters that do not adhere to Islamic principles to increase the number of investee companies they are able to invest in. The use of such loose screening criteria was understandable when SCIFs were established decades ago but, after the wide spread growth of Islamic funds, the screening of SCIFs should develop to advance screening criteria that achieves the objective of social justice.

Further, the results from the interviews suggest that most of the fund managers, do not know and are unfamiliar with positive screening. However, once told about it the fund managers confirmed that positive screening would help to achieve social justice objectives. The fund managers' excuses for not using positive screening were that it was new to the industry, despite ethical investment funds having a long tradition going back in the USA to 1928[155] and in the UK to 1948[156] (see Kreander, 2001 and 2002). However, fund managers did not want to use positive screening criteria as it would increase the strictness of the filters used to determine investee companies and as a result decrease the number of investment choices, reducing diversification and hence returns.

In the same regard, the findings indicate that non-financial criteria were unimportant for SCIFs. Investors were not aware of positive screening and hence did not demand it and no independent or governmental organisations in KSA supported positive screening, and

[155] Kreander (2002) notes that "the first fund in the world with ethical criteria was the pioneer fund which lunched in 1928 in US'' (p.18).
[156] Kreander (2002) notes that "the church of England has had ethical criteria for some of its funds at least since 1948'' (p.2).

regulatory bodies have no regulations on screening criteria or review the operations of SCIFs in KSA, and hence SCIFs do not go beyond the main Islamic instructions. Positive screening should be applied in SCIFs because this is part of Islamic instruction that has a concern for social justice. Financial performance should not be the only target of these funds, but also the extent to which a fund is compliant with Sharia. According to Obaidullah (2005) Islamic values and Sharia compliance should be more important for investors than maximising profit. Looking for profit is something that is allowed and is a right for everyone, even in Islamic teachings, but when it comes at the expense of ethics and social justice, it turns into greed.

Similarly, the evidence from the content analysis confirms the absence of positive screening and ignorance of social justice in SCIFs T&Cs. It appears that screening criteria only focuses on negative financial screening in the T&Cs, with no mention of positive screening at all; thus, it appears that globalisation's influence has led to funds not focusing on positive screening and hence no thoughts about social justice. In addition, it is interesting to find that some screening criteria in the T&Cs are different for the same funds depending upon whether they are the Arabic or English versions. Further, some negative screening criteria are unsuitable for KSA, as some industries in the screening criteria are already not allowed in KSA by law. All of this indicates that the T&Cs for SCIFs are only paperwork that are used to market the funds to give the impression of following Islamic principles but not to demonstrate the funds' real Sharia credentials.

8.3.4.2 Sharia Supervisory Boards

The evidence from two empirical pieces of work suggests that the second impediment to social justice by SCIFs is the weak role of SSBs. To ensure that SCIF's are Sharia compliant, fund managers appoint SSB members to review their investments, but the influence of globalisation has touched SSB members as well, and the SSB members' role is too limited. According to the interviewees, SSB members are supposed to play a vital role in assisting the development of SCIFs, from an Islamic perspective which is a focus on social justice, but instead they only review a few transactions.

Further, the SSB members receive monetary rewards for being members of the funds' SSBs and they work for many different funds, with no real monitoring of what is actually happening or how the funds are actually investing. Instead, their work is often carried out by Sharia auditors who are also appointed by the financial institutions. The SSB members in the T&Cs explanation of SSBs are well-known scholars' and their names are used as a way of advertising these funds to investors, as their names have become trusted by KSA society, despite the fact that they are not actually carrying out their duties. The little attention paid by SSBs members impedes the social justice focus of SCIFs.

The other key impediment to social justice related to SSB members, according to the interviewees, is the little time that they spend on issues as some of them work for far too many different SCIFs. Thus, the SSB members are not using their knowledge to make SCIFs have a social justice role in KSA. The aforementioned issues reflect the influence of globalisation, where money and financial rewards are most important.

Also, the SSBs members are blamed heavily by some of interviewees for not promoting social justice in SCIFs because they do not use their power and influence. They have not worked to develop positive screening criteria for SCIFs and their work is mainly to provide investors with an assurance that their investments comply with Sharia law. The SSBs work on increasing the wealth of investors but do not care about social justice in society, which is against Islamic principles. Globalisation may be the cause as it makes the world more similar and this may affect the SSB members. For example, Boyer (2000) explains that "globalization meant a new strategy on the part of multinationals, who proposed to sell the same product everywhere" (p.16). The SSB members are working more as business consultants, who give their views and are paid for them. They may be motivated by profit, power and influence, and they are diffusing these practices across the globe, resulting in no focus on social justice in SCIFs.

Also, the findings from the content analysis confirmed the interview results as there is no disclosure of information that is important about SSB members', such as their responsibilities, their pay, or the SSBs' working processes and meetings. The profiles of the SSBs in the T&C are used to demonstrate that the SSB members have a lot of knowledge about Islamic law, but what is not disclosed is their knowledge of finance. Also, from the SSB members profile in the T&Cs it appears that, besides their work in financial institutions, they have other work too, as discussed in chapter seven. As a result, these scholars are used because they are known from their other duties without any knowledge or experience of finance.

8.3.4.3 Hisba

The third impediment to social justice is the absence of Hisba. The regulatory bodies have not developed or implemented regulations specifically to regulate SCIFs in KSA, despite regulatory bodies' work being related to the concept of Hisba. There is only one regulation for all types of investment funds, with few details pertaining to Islamic funds, as discussed in chapter two. The focus on conventional investment is because of the close relationship between KSA and other Western countries financially, especially since KSA is the main oil producer in the world. Thus, it is easy to deal with Western countries according to the conventional finance system. Hence, SSB members need to be regulated, as the Islamic religion depends on the scholars' interpretations of Islamic texts and to date this has caused a conflict and decoupling of SCIFs practices with Islam and social justice. In terms of which investee companies are suitable choices is varied because of the different financial screening criteria in SCIFs (see Olson and Zoubi, 2008; Nainggolan et al., 2011) and has possibly prevented some funds from developing and fulfilling a social justice role.

8.3.4.4 Shura

Shura is another Islamic principle that is absent in SCIFs. Individual and institutional investors have failed to provide Shura to SCIFs by monitoring the investments as long they receive satisfactory financial returns. The findings show that investors depend on funds being ratified by well-known scholars and hence being in compliance with Islamic law, but investors appear to be more upset if they do not receive their expected financial returns on their investments rather than any Islamic or social justice motive. As a result, financial institutions do not work on engaging with their investors or investee companies to change their practices. For example, even if the SCIFs wish to apply positive screening, it may be impossible because not all investors care about social justice. In the same vein, financial institutions do not care much about Shura because if the investment is going smoothly with positive financial returns there is no reason to change it. Finally, investors do not provide Shura to fund managers and lobby for positive screening for social justice reasons such as in SRI (see Sparkes and Cowton, 2004).

Shura is an important principle in Islam and SCIFs need to have this so that social justice will be met but, because of the influence of globalisation, Shura is ignored. Not having Shura in funds implies an influence of globalisation as the fund managers avoid it and assume that investors only want financial returns. Similarly, the findings show that investors' opinions do not influence fund managers to improve their funds' social justice role, as the focus of fund managers is merely on considering financial returns. Also, there are no initiatives by investors to change the funds' practices. Thus, the absence of Shura is a result of the fact that the SCIFs' stakeholders only want financial returns and ignore the fact that they live and work in an Islamic society that has social justice values. Financial return is the most important factor for SCIFs stakeholders derived from the negative influence of globalisation as a cultural influence.

8.3.4.5 Investee Companies

The last impediment to social justice is that investee companies in the KSA are not eager to change their practices in order to be compliant with any positive screening criteria that could be applied by SCIFs and focus on social justice because no external bodies assess social justice practices and there is no engagement by fund managers with investee companies to change investee companies' practices to achieve social justice. Fund managers may try to influence their investee companies to change their activities through engaging in dialogue with the management or by voting at annual general meetings (see Renneboog and Szilagyi, 2011; Becht et al., 2010; Renneboog et al. 2011; Sørensen and Pfeifer, 2011) but this did not happen in the case of the SCIFs' fund managers. Further, there is no screening of the investee companies' environmental and societal impact by regulatory bodies, and hence they do not need to change their current practices. The influence of globalisation on the investee companies stems from their also focusing only on financial returns. Investee companies do not change their practices as the SCIFs' fund managers only want financial returns to satisfy their investors; hence, having some environmental restrictions imposed on the investee companies as a result of the SCIFs' positive screening criteria might make the investee companies less profitable. For example, the Yamamah Cement Company[157] caused environmental pollution that affected the people

[157] The Yamamah Cement company is one of the firms listed on the Saudi stock exchange that is Sharia compliant.

in Riyadh (see Damam, 2006) and the Ma'aden Company[158] caused health problems to the people of the city of Mahd Aldahab (see Alahmadi, 2011). However, both of these companies are Sharia compliant, according to SCIFs industrial and financial screening criteria, and SCIFs invest in them despite their negative operations. Thus, the focus is always on maximising financial returns, which stems from globalisation.

8.3.5 Empirical Evidence Findings

Overall, the results from the interviews and content analysis suggests that SCIFs in KSA do not take into consideration social justice as a result of the influence of globalisation on the roles played by fund managers, SSB members, regulatory bodies, investors and investee companies in SCIFs. Thus, SCIFs have become similar to Western conventional funds and only focus on profit and financial returns, not on Islamic social justice.

Thus, SCIFs focus has been narrowed to only focus on financial returns with no impact and consideration to society. As per the ideology of capitalism, the profit desire has captured SCIFs to ignore social justice; commercialism has captured SCIFs in such a way that social justice has gone astray from their agenda.

8.4 Contribution to Knowledge

The main goal of this thesis was to contribute to the SCIF literature, especially since only a few studies have been conducted to date about investment funds in a Saudi context, either conventional or Islamic. In this regard, it is the only study, to the best of my knowledge, to incorporate postcolonial theory in the light of globalisation with the study of SCIFs. The study tries to elaborate on the main factors that have impeded SCIFs from increasing social justice in KSA.

[158] The Ma'aden company is one of the firms listed on the Saudi stock exchange that is Sharia compliant.

In terms of finance, this study contributes to the finance literature as there is a lack of a critical theoretical framework in the finance literature. For Islamic finance, this study contributes to the few existing studies on Sharia compliant investment from a critical prospective in KSA and in other countries, to the best of the researcher's knowledge. The existing studies about SCIFs in KSA focus on the quantitative point of view. There are three articles that discuss SCIFs but all from a performance point of view.[159] In the same vein, most studies about Islamic banking and finance focus on technical aspects, such as calculating Zakat or avoiding Riba, but tend to ignore non-financial matters such as social justice; the findings of this thesis fill this gap and provide information regarding an understanding of the current practices of SCIFs and their lack of influence on social justice.

This research contributes to our knowledge of SCIFs through pursuing a critical theoretical framework. One of the important contributions is that SCIFs apply Islamic concepts to the extent that they guarantee financial returns but not to the extent that they reflect true Islamic concepts that can increase social justice in society and create a better environment, health and wealth. The Islamic concept of social justice and the practise of SCIFs appears to be disjointed and decoupled and this contributes to our knowledge. The study highlights KSA society's focus on globalisation and not on Islamic social justice, and how this affects SCIFs. The study explores the perceptions and current practices of social justice in SCIFs of different stakeholders and what impedes these funds from reflecting Islamic concepts of social justice. The study also discusses this issue with regard to SRI funds, as they are similar to some extent, and are considered close to SCIFs, in terms of screening, but SRI

[159] These articles are: BinMahfouz, S., & Hassan, M. K. (2012). A comparative study between the investment characteristics of Islamic and conventional equity mutual funds in Saudi Arabia. The Journal of Investing, 21(4), 128-143. Merdad, H., Hassan, M. K., & Alhenawi, Y. (2010). Islamic Versus Conventional Mutual Funds Performance in Saudi Arabia: A Case Study. Journal of King Abdulaziz University: Islamic Economics, 26(2), 161-198. Elsiefy, E. (2008). "Empirical investigation of the performance of Islamic and traditional mutual funds Evidence from Saudi Arabia Stock Market". Journal of the Faculty of Commerce for Scientific Research, Alex. Unv. No.1 Vol.

funds have more advanced screening criteria that reflect Islamic concepts of social justice more than the SCIFs themselves.

This thesis has policy implications to improve their focus, as SCIFs in KSA need to be regulated by a regulatory body: i) to close the difference between funds in term of screening criteria; ii) to have similar, clear screening criteria, both negative and positive; and iii) to monitor funds to ensure that they are using the criteria they disclose to their investors. Regarding SSB members, their work should be subject to regulatory oversight with clear guidance.

8.5 Limitations of the Study

No study can cover all of the research aspects or address the topic fully, otherwise there would be no need for future research, and the current thesis is no exception. This study attempted to extract the views of fund managers, SSB members, regulatory bodies and investors regarding the influence of SCIFs on social justice in KSA. The views of 24 stakeholders may not represent the opinions of all stakeholders of SCIFs. Also, the focus was more on fund managers, as the researcher had more access to this group and the responses differed from interview to interview, that creates the non-standardisation of answers. In this regard, some interviewees may have misinterpreted the questions because they were not familiar with them and did not want to give the researcher an idea about their lack of knowledge and thus they may not have provided realistic answers. Nevertheless, a broad spectrum of stakeholders was interviewed, some with extensive knowledge, which has mitigated this limitation to some extent.

Further, most interviews were carried out in Arabic, so the researcher had to transcribe these interviews into Arabic then translate them into English. Consequently, the translation may not reflect the exact intended meaning at all times and that could cause subjectivity and bias. To reduce this issue, the researcher consulted colleagues to ensure the effectiveness of the translations adopted; moreover, a second supervisor spoke Arabic as a first language and supervised the student during the transcription and translation period. Thus, although the interview findings do not provide any systematic generalisations, they provide a lot of evidence that supports the analysis.

The decision was taken to apply a content analysis research method to SCIFs' T&Cs because the annual reports were not available for most fund managers and often covered all funds in an institutions not just SCIFs. This might be considered a research limitation, as no study has analysed funds' T&Cs, to the best of the researcher's knowledge. However, this is also a contribution to knowledge. The other limitation and also a contribution to knowledge is that, since there are no standards or anything regarding the incorporation of social justice into Islamic finance, to establish a content analysis checklist the researcher was forced to depend on social justice concepts identified from the literature and other similar studies that incorporate content analysis for Islamic accounting or Islamic banking social responsibility.

One of content analysis limitations is that data can be intensive and that can cause a misinterpretation of data that will affect the reliability and validity of the results. To overcome this limitation, defined decision rules and procedures were created to conduct the content analysis. In addition, the student and another PhD student coded a pre analysis sample of T&Cs. Any differences were spotted and reconciled.

A final limitation is regarding the theoretical framework. The influence of globalisation on SCIFs may appear to refute globalisation but globalisation also has a lot of positive influences on SCIFs as well. The focus on the negative side might be understood that SCIFs should reject globalisation, but indeed SCIFs can use globalisation for its success and increase the focus on social justice and that can be an avenue for future researches.

8.6 Avenues for Future Research

In general, there is a dearth of studies about SCIFs in KSA. Thus, a lot of research can be done in this area in KSA because it is one of the biggest countries in which Islamic finance is concentrated. Consequently, there are urgent and significant needs for more studies. Nevertheless, this study draws a comprehensive picture of why social justice is not being achieved by SCIFs and future research might study these impediments from a broader and different perspective.

One of the proposals for future research can focus more on the role of the regulatory bodies and SSB members on SCIFs. Their role can be explored more thoroughly and provide more understanding and insight about SCIFs practices and how they can be developed further to provide a more positive impact on society. This research proposal can focus on the country's environment (macro context) as it can be one possible reason of hindering social justice.

Another important proposal for future research is related to exploring individual and institutional investors' roles in influencing investee companies. Such research could interpret the reasons behind the absence of pressure groups in KSA society and how they can be established and what society can expect from them to have a better society.

Another important future research avenue is related to comparing KSA with countries that already have implemented regulations for Islamic finance such as Malaysia. This study could provide information about the importance of having such regulations and whether such regulations work to apply Islamic concepts more appropriately and if such regulations could increase the impact of social justice on society by SCIFs.

8.7 Final Thoughts

Social justice is important because it makes the world a better place. It supports noble human ethics and values such as human rights and a consideration for the environment. Because SCIFs are based on Islamic teachings, applying social justice concepts of Islam by SCIFs will influence society and assist humanity in having a better place to live together.

This study has confirmed to me that the social justice focus of SCIFs is indeed an inherently complex issue. Most interviewees that participated in this thesis were very keen to talk about social justice and SCIFs. The interviewees verified their belief in the importance of social justice and displayed an understanding of social justice, but it has not translated to SCIF practices. Consequently, the absence of social justice by SCIFs has made this industry similar to conventional ones as both compete against each other to attract investors through offering high financial returns. The lack of social justice by SCIFs is surprising and it was very surprising to find out that it is as a result of not caring about applying investment criteria such as positive screening criteria because few care about social justice whether fund managers, SSBs members, investors or regulatory bodies despite the fact that social justice is important in Islamic finance. To impose social justice in SCIFs, it is important to have regulations that regulate this industry and regulate the work of SSBs. The absence of social justice is proof that financial institutions will not apply positive screening criteria unless there are regulations and a power that regulates and helps the funds to adopt positive screening criteria. In addition, the SSBs members' work should be to regulate and govern SCIFs and promote trust in SSB members. Social justice is an important concept in Islam and hence it should be part of SCIF practices. In conclusion, the findings of this thesis indicate that there is no social justice influence by SCIFs in KSA society. Thus, it may be that, in current circumstances, having social justice by SCIFs is impossible to achieve. The content analysis provided evidence regarding the absence of social justice in SCIFs, and it might be that social justice can only be achieved if there is an inherent interest by SCIF stakeholders. Perhaps many SCIF stakeholders do not think about social justice as long as they do not feel its absence like poor people in society. However, it has become clear to me that SCIFs are not following the goals that Islamic finance set up to establish, and have gone astray as a result of globalisation. According to Islamic Finance in the light of Islamic teachings, and the Islamic finance literature, the Islamic ideology of finance aims at justice, cooperation, welfare of the poor and society with its best principles and concepts. Unfortunately, it is not part of SCIFs agendas.

Globalism per se is from an Anglo Saxon Western focus and hence the ideas of colonialism are still going strong serves the interests of particular Western society. The conclusion from this thesis is, therefore, that Western ideas have permeated into the developing world and have become deeply embedded as SCIFs now adopt and mimic a capitalist ideology, despite Islamic teachings.

Appendices

Appendix 2.1

Saudi Listed Companies in 2013

Banks & Financial Services		**Media and Publishing**	
1	Riyad Bank	77	Tihama
2	Bank AlJazira	78	SRMG
3	Saudi Investment Bank	79	SPPC
4	Saudi Hollandi Bank	**Insurance**	
5	Saudi Fransi Bank	80	Tawuniya
6	SABB The Saudi British Bank	81	Malath Insurance
7	Arab National Bank	82	MEDGULF
8	SAMBA Samba Financial Group	83	ALLIANZ SF
9	Al Rajhi Bank	84	SALAMA
10	AL Bilad Bank	85	Walaa Insurance
11	Alinma Bank	86	Arabian Shield
Petrochemical Industries		87	SABB Takaful
12	Chemanol	88	SANAD
13	Petrochem	89	SAICO
14	SABIC	90	Wafa Insurance
15	SAFCO	91	Gulf Union
16	Industrialization	92	ATC
17	Alujain	93	Al-Ahlia
18	Nama Chemicals	94	ACIG
19	SIIG	95	AICC
20	Sahara Petrochemical	96	Trade Union
21	Yansab	97	Sagr Insurance
22	Sipchem	98	U C A
23	Advanced	99	Saudi Re
24	Saudi Kayan	100	Bupa Arabia
25	Petro Rabigh	101	Weqaya Takaful
Cement		102	Al Rajhi Takaful
26	HCC	103	ACE
27	Najran Cement	104	AXA-Cooperative
28	Arab Cement	105	Gulf General
29	Yamamah Cement	106	Buruj
30	Saudi Cement	107	Al Alamiya
31	Qassim Cement	108	Solidarity
32	Southern Cement	109	Wataniya
33	Yanbu Cement	110	AMANA Insurance
34	Eastern Cement	111	Enaya
35	Tabuk Cement	112	Alinma Tokio m
		Industrial Investment	
36	Jouf Cement	113	Takween
Retail		114	BCI
37	A.Othaim Market	115	Ma’aden
38	Mouwasat	116	Astra Indust
39	Extra	117	AlSorayai Group
40	SASCO	118	SHAKER
41	Thim’ar	119	Pharmaceutical

42	Fitaihi Group
43	Jarir
44	Aldrees
45	AlHokair
46	Alkhaleej Trng
Energy & Utilities	
47	Gas&Industrialization
48	Saudi Electricity
Agriculture & Food Industries	
49	SAVOLA Group
50	Food
51	SADAFCO
52	Almarai
53	Anaam Holding
54	H B
55	Herfy Foods
56	Catering
57	NADEC
58	Qassim Agriculture
59	Tabuk Agriculture
60	Saudi Fisheries
61	Sharqiya Dev Co
62	Jouff Agriculture
63	Bishah Agriculture
64	Jazan Development
Telecommunication & Information Technology	
65	STC
66	Etihad Etisalat
67	ZAIN KSA
68	Atheeb Telecom
69	Almutakamela
Multi-Investment	
70	SARCO
71	Saudi Advanced
72	Al Ahsa for Dev.
73	SISCO
74	Assir
75	Al Baha
76	Kingdom

120	Glass
121	FIPCO
122	Maadaniyah
123	Saudi Chemical
124	SPM
125	AlAbdullatif
126	Saudi Export
Building & Construction	
127	AsSLAK
128	MMG
129	SSP
130	Alkhodari
131	Ceramic
132	Gypsum
133	Cables
134	Saudi Industrial
135	Amiantit
136	Pipes
137	Zamil Industrial
138	AL Babtain
139	SVCP
140	MESC
141	Red Sea
Real Estate Development	
142	Real Estate
143	Taiba
144	Makkah
145	Arriyadh Development
146	Emaar E .C
147	Jabal Omar
148	Dar Al Arkan
149	KEC
Transport	
150	Bahri
151	SAPTCO
152	Mubarrad
153	Budget Saudi
Hotel & Tourism	
154	Altayyar
155	Hotels
156	Shams

Appendix 2.2

Assets of KSA Investment Funds Including Sharia Compliant (Million Riyals)

End of period	Domestic Share	Foreign Shares	Domestic Bonds	Foreign Bonds	Domestic Money Market Instrument	Foreign Money Market Instrument	Other Domestic Assets	Other Foreign Assets	Real Estate Investments	Total Assets
2005	89,444	14,667	20	79	6,501	1,607	19,696	4,960	---	136,974
2006	31,960	15,583	1,683	168	23,951	3,512	3,749	3,502	---	84,108
2007	45,206	16,809	531	264	29,362	3,518	4,611	4,799	---	105,100
2008	17,058	9,749	1,618	559	38,289	2,252	2,145	995	2,149	74,814
2009	19,281	10,009	1,960	324	49,402	4,099	1,167	974	2,332	89,548
2010	20,948	10,933	2,995	363	48,330	8,028	694	976	1,473	94,740
2011	18,472	9,289	3,031	2,560	40,132	5,454	1,156	359	1,740	82,193
2012	19,192	10,354	2,086	1,807	44,874	6,034	1,844	60	1,817	88,068

Note: Detailed information about investment funds assets in KSA.
Source: Saudi monetary agency-first quarterly statistical bulletin, 2013.

Appendix 2.3

Investment Fund Regulations in KSA
Related Articles to Sharia Compliant Investment Funds

Article 34: Permitted Fees and Charges

a. The fund manager may transfer from the cash assets of the investment fund account, or receive payment in the form of units in the investment fund in respect to:

1) the costs of dealing in the assets of the investment fund, including brokerage fees;

2) commission on borrowings related to the investment fund;

3) investment management fees, including any performance or incentive element if applicable;

4) any charges reasonably incurred by the investment fund in depositing any part of the assets of the investment fund with the custodian;

5) the fees and expenses of the auditor of the investment fund;

6) the fees of Shariah Committee, if any;

7) the costs incurred in publishing annual reports;

8) fees and expenses of the fund directors; and

9) any other charges or expenses payable to persons dealing at arm's length with the investment fund and incurred in connection with the operation and administration of the fund.

b. A fund manager may make a charge to a unitholder electing to exchange units in one sub-fund for another, but these charges may not exceed the total aggregate sum of any subscription and redemption fees usually charged by the fund manager.

c. A fund manager may not increase any fees or charges above the maximum permitted level, as expressed in the terms and conditions, without giving at least sixty (60) calendar days prior notice to unitholders.

d. The fund manager must pay all initial costs of the organisation and offering of units in any investment fund out of its own resources, such initial costs to include the preparation of the investment fund's terms and conditions and other materials required for submission to the Authority under Article 5 of these Regulations.

e. Any costs that are not considered costs relating to promotion or distribution according to paragraph (a) of Article 35 and that are incurred after the inception of the investment fund and the provision of all necessary Authority approvals may be met out of the assets of the investment fund.

f. A fund manager is financially responsible for losses in the investment fund resulting from errors caused by the fund manager’s negligence or deliberate misconduct.

g. The fee paid to a fund manager or fund sub-manager may be based on a measure of the performance of an investment fund other than a simple percentage of the net asset value of the fund (a “performance fee”) only if:

1) the fund manager or fund sub-manager has managed the investment fund for at least twelve calendar months and begins charging a performance fee only after the completion of that twelve-month period;

2) the performance fee consists of a base fee and a performance adjustment;

3) the performance adjustment consists of a symmetrical increase or decrease of the base fee in proportion to the extent by which the fund’s performance over a reference period is greater or less than an appropriate benchmark;

4) the reference period is the period of at least twelve consecutive calendar months immediately before the period in which the performance fee is charged; and

5) the performance adjustment is re-computed quarterly and is applied beginning on the first day of the new quarter.

h. Disclosures relating to fees and expenses, including a worked example based on a hypothetical unitholder’s investment, must be included in the terms and conditions according to Annex 1.

Article 38: Investment Policies and Practices

a. A fund manager shall undertake the activity of fund management with the aim of achieving the fund’s investment objectives as set out in the terms and conditions, and for no other purpose or objective.

b. The investment decisions of the fund manager shall conform to good and prudent investment practice in relation to the investment objectives of the fund as set out in the terms and conditions, including using its best efforts to ensure:

1) The fund is sufficiently liquid in order to meet reasonably anticipated redemption requests;

2) The fund does not unduly concentrate investments in a security or securities, in a country, geographic area or industry or sector except to the extent any such concentration is disclosed in the terms and conditions; and

3) The fund does not undertake undue investment risk in relation to its investment objectives

c. The fund manager of an investment fund that is stated to be operating in accordance with principles of Shariah must periodically ensure the compliance of all fund investments with the criteria that, according to the terms and conditions, are used by scholars who provide advice on the investments of the investment fund to determine the eligibility of investments for the investment fund. The fund manager must report any material lack of compliance to the fund board at the fund board’s next regularly scheduled meeting.

ANNEX 1

REQUIREMENTS OF TERMS AND CONDITIONS

Each fund's terms and conditions must include at least the following information, which should be presented in a way that is easy for investors to understand. Disclosures must be presented in the sequence of the items set out in this document:

1.	Name of the investment fund.	
2.	Address of the head office of the fund manager and any web site address for information about the investment fund and/or its fund manager.	
3.	Commencement.	The date set for accepting subscriptions.
4.	Regulator.	A statement to the effect that the fund manager is regulated by the Authority.
5.	Date the terms and conditions were issued or last updated.	
6.	Participation.	State the minimum entry level for investment in the fund, if any.
7.	Currency of the fund.	State the currency of the fund and describe any procedures for converting subscriptions received in other currencies.
8.	Investment fund objectives.	A description of the investment objectives and goals of the investment fund, including the category or type of fund. If the investment objective is to invest in a specific investable universe that is a sub-category of the issuers traded on the Exchange, the disclosure must include the criteria for inclusion in the investable universe.
9.	Principal investment strategies.	A summary of the principal investment strategies the investment fund employs in order to achieve its objectives, including: (i) The type or types of securities in which the investment fund principally will invest; (ii) Any policy to concentrate investment in the securities of issuers in a particular industry or group of industries, a particular country or

		geographic area;
		(iii) The types of transactions, techniques and instruments that may be used on behalf of the investment fund and for the purpose of managing its portfolio of investments;
		(iv) The types of securities which may not be included in the portfolio of the fund or the types of securities that may only be included. Where the fund has received an exemption from the Authority under Article 42 of these Regulations, a clear statement of the exemption provided.
		(v) Any other restrictions on the type or types of securities or other assets in which the investment fund may invest;
		(vi) The borrowing powers of the investment fund and the fund manager's policy in relation to exercising those borrowing powers;
		(vii) Those securities markets on which the investment fund is likely to buy and sell portfolio investments;
		(viii) The extent to which the assets of one investment fund managed by a particular fund manager may be invested in the units of other investment funds managed by that fund manager or by other fund managers; and
		(ix) To the extent the fund manager invests the assets of the investment fund in a market or markets that use derivatives of securities, a description of the extent to which such derivatives will form part of the assets of or be used by the fund manager to manage the assets of the investment fund.
10.	Principal risks of investing in the investment fund.	(i) A summary of the principal risks of investing in the investment fund, including the risks to which the portfolio of investments is subject, and any circumstances reasonably likely to affect the investment fund's net asset value, yield and/or total return adversely.
		(ii) A disclosure that unitholders bear a risk of loss of money in investing in the investment

		fund.
		(iii) A disclosure that an investment in an investment fund is not a deposit with any local bank sponsoring, selling or otherwise affiliated with the investment fund.
11.	Fees and expenses.	Disclosure of all types of fees and expenses payable by the unitholder or out of the assets of the investment fund, and a cross-reference to the Summary Financial Disclosure for disclosure about the amount of fees and expenses.
12.	Dealing costs	If the costs of dealing in securities (forming the assets of the investment fund) are to be paid out of fund assets, a statement to this effect should be included in the terms and conditions.
13.	Winding-up and the appointment of a liquidator.	A description of the circumstances in which an investment fund may be wound-up or a replacement fund manager appointed by the Authority, and the procedure to be followed on winding-up and that for appointing any liquidator.
14.	Fund board.	(i) The names and qualifications of the fund directors and disclosure of which fund directors are independent;
		(ii) A description of the nature of the services to be provided by the directors of the fund board, and the term of the contract for services; and
		(iii) If applicable, in what capacity any director of the fund board acts in relation to any other investment fund, and the name or names of any such other investment fund.
15.	Fund manager.	(i) The name and address of the fund manager;
		(ii) Any other business activities or interests of the directors of the fund manager or of the fund manager that are of significance to or could potentially conflict with those of the investment fund;

		(iii) Any material conflicts of interest on the part of the fund manager that may potentially affect its performance of its obligations to the investment fund; (iv) Any functions in relation to the investment fund that the fund manager has delegated to a third party, and the identity of the third party; and (v) A statement that the fund manager is an authorised person under the Authorised Persons Regulations, including the licence number granted by the Authority to the fund manager.
16.	Custodian.	The name and address of the custodian to the investment fund.
17.	Auditor.	The name and address of the auditor to the investment fund.
18.	Annual audited financial statements	A statement that the investment fund's annual audited financial statements are available, without charge, upon request and an explanation of how unitholders and prospective unitholders may request copies. For a new investment fund, a statement that the first audited financial statements will be available as at the fund's year end and give the date of that year end.
19.	Characteristics of the units.	A description of the different classes of units, if the investment fund is to comprise more than one class of unit, including the name of each class and the rights attached to each class should they differ from each other.
20.	Other information.	Include any other information known to, or that ought reasonably to be known to the fund manager or the fund board and that is information that unitholders, prospective unitholders and their professional advisors might reasonably require or expect to be included in the terms and conditions upon which an investment decision is to be made.
21.	Shariah-based investment funds.	If an investment fund is stated to be operating in accordance with principles of Shariah, disclose: (i) The identity and qualifications of the

		Shariah committee members; (ii) Whether those members are compensated for their advice and the nature and source of any compensation provided; and (iii) The criteria used by the members to determine the eligibility of investments for the investment fund;
22.	International investment funds.	Any investment fund approved by the Authority to operate as an international fund in accordance with Article 41 must disclose: (i) The criteria used by the fund manager in selecting those foreign investment funds in which to invest the assets of the international investment fund; and (ii) Any and all exceptions approved by the Authority to Article 41 requiring international funds to maintain all of their assets in foreign funds except cash assets.
23.	Initial offers.	If the fund manager specifies a minimum amount that must be raised through investor contributions before the investment fund may be launched, this minimum must be stated. If subscription monies are to be invested in money market funds or bank deposits, pending such a minimum amount being achieved, this must also be stated.
24.	Investment by the fund manager in the fund.	Disclose whether or not the fund manager invests in the units of the investment fund and the total amount of any such interests as at the most recent financial year end.
25.	Subscription and redemption procedures.	(i) The dealing days on which units of the investment fund will be sold and redeemed; (ii) The deadline on any given dealing day for the submission of instructions for purchases or redemptions of units; (iii) The maximum period of time that may elapse between subscription and investment in the fund and any other applicable restrictions. (iv) The procedures for submitting instructions

		to purchase or redeem units; (v) The maximum period of time that may elapse between redemption and payment to the unitholder of the proceeds of redemption, and any other applicable restrictions; (vi) Any minimum number or value of units that a unitholder must hold or seek to sell or redeem; and (vii) Any entitlement of the fund manager and the circumstances in which he may suspend, defer or refuse subscriptions or redemptions.
26.	Valuation of the assets of the investment fund.	A description of: (i) How the value of the assets of the investment fund is to be determined; (ii) How frequently and at what time of the day the valuation is to take place; (iii) The method of calculating subscription and redemption prices and any circumstances in which this method of pricing may change. (iv) Where and how frequently the price of units will be published.
27.	Dilution.	If a fund manager intends to impose a dilution charge under Article 48 on a unitholder who is requesting to redeem units within 30 days of their purchase, a statement setting out: (i) The fact that a dilution charge will be imposed and the amount of such a charge; (ii) The circumstances in which such a charge will be imposed and any circumstances in which such a charge may be waived; and (iii) The basis on which the amount of the charge will be calculated, including the method for identifying the units being redeemed.
28.	Termination.	The procedures by which the fund may be terminated.
29.	Reporting to unitholders.	Describe those periodic reports that will be provided to unitholders and the annual financial statements of the fund, and how such reports or

		statements will be provided to unitholders.
30.	Conflicts of interest.	A statement that the procedures for dealing with conflicts of interest will be made available on request.
31.	Voting rights policies.	Give a statement regarding voting rights policies.
32.	Changes to the terms and conditions.	The procedures to be employed on notifying changes to the terms and conditions.
33.	Complaints procedure.	Set out a statement that the procedure for the handling of complaints will be made available on request.
34.	Governing law.	A statement that the terms and conditions are subject to Saudi Arabian law.
35.	Compliance with Regulations.	A statement that the terms and conditions and other fund documentation comply with these Regulations and contain full, true and plain disclosures of all material facts relevant to the investment fund.
36.	Summary Financial Disclosure	An appendix, which must be updated at least annually, containing the following financial information: (i) Fees and Expenses. Include a table showing all fees and expenses, whether payable by the unitholder or out of the assets of the investment fund. Fees and expenses disclosed must be actual fees and expenses incurred for the most recent calendar year. If the investment fund is a new investment fund, fees and expenses must be those that the fund is obligated to pay (if the applicable contract expresses such fees as a percentage of assets) or those that are reasonably estimated for the coming year by the fund manager, which estimated figures must be approved by the independent auditor to the investment fund prior to the publication of the terms and conditions; and a footnote to the table should explain that any estimated figures are estimates and the basis for the estimates. The table The fees and expenses to be disclosed shall include, but not be limited to: (a) Any charge made to the unitholder on

purchase or redemption of all or some of a unitholder's units;

(b) Any fees payable to the fund manager (or any sub-manager) out of the investment fund's assets for portfolio management and/or investment advisory services;

(c) Any dilution charges to be charged to unitholders;

(d) The costs of the custodial and other services of the custodian;

(e) Any fees paid to an independent auditor;

(f) Any costs incurred by the investment fund for borrowing money;

(g) Any costs of unit registry or other administrative services;

(h) Any fees payable for the provision of services in relation to the register of unitholders; and

(i) Any other fees or expenses charged to unitholders or paid out of the assets of the investment fund.

Any circumstances or criteria in which a fund manager may elect to waive or rebate any of the above must also be set out in the terms and conditions. Fees and expenses disclosed in the terms and conditions must be disclosed without giving effect to any waiver or reimbursement available, unless the fund manager is contractually committed to provide a waiver or reimbursement in the investment fund's terms and conditions.

(ii) Also provide a table showing operating fees and expenses paid out of fund assets as a monetary amount, calculated by multiplying the percentages set out under paragraph (i) above by a hypothetical unitholder's investment, expressed in the base currency of the investment fund.

(iii) Ensure that the basis of the calculation of fees, how they are to be collected and how frequently they are to be paid are clearly disclosed.

(iv) If the investment fund is a fund of funds, a second table of fees and expenses must also be included. This second table must show the

(v) Dealing Costs. If the fund incurred known transaction costs during the most recent fiscal year, disclose the amount of those costs and express those costs as a percentage of the fund's average net assets during that year.

(vi) Past Performance. Include a table setting **out total returns for one, three, five and 10 year periods, and a bar chart showing total returns** for each of the last ten calendar years. Total returns must be calculated and shown net of all actual fees and expenses and must be compared to the returns of an appropriate index for the **periods shown. Next to the bar chart and table, set out a brief explanation of how the** information illustrates the variability of returns on an investment in an investment fund, and clearly and prominently state that:

(a) Neither the past performance of the investment fund nor the past performance of the index is an indication of how the investment fund will perform in the future; and

(b) There is no guarantee for unitholders that the investment fund's absolute performance or its performance relative to the index will repeat or match past performance.

(vii) Fund Board Compensation. The total compensation paid to the board over the most recent calendar year for service on the board (not including compensation for employment by the fund ma**nager). If the investment fund is** a new investment fund, board compensation disclosed in its first be that projected for the coming year;

(viii) Foreign Fund Financial Arrangements. Disclose whether the international fund manager or any affiliate receives any compensation from any person in connection with investments in a foreign fund; and

(ix) Dilution Charges. The amount of any dilution charge.

Appendix 6.1

Semi-Structured Interview Questions

1. Fund managers

(A) Background information:

Institution Name: ……………………….............................

Participant age: ☐ 20-30, ☐ 30-40, ☐ 40-50, ☐ over 50
Number of years of experience: ....
Number of years as fund manager: ……………………………
Work in conventional fund before................ If yes for how long..............
Study/work abroad: …………… If yes in which country:……………………
For how long you study/work abroad:....................

(B) Islamic investment funds practices

1- How many Islamic investment funds does your financial institution have? What motivates your financial institution in starting these funds? How have investors responded to these new funds? Do you think Islamic investment funds are increasing rapidly in KSA market?

2- When establishing an Islamic fund, what objectives are usually set and who sets them?
3- What type of screening is used in your Islamic investment funds? Do they differ by fund?

4- What is the difference between positive and negative screening?

5- Do you use positive screening and what impedes you from using positive screening?

6- To what extent would investee companies cooperate with you if you started to use positive screening for all your investments? Would investee companies change their practices? If yes, how?

7- What is the Sharia Supervisory board members (SSBs) role in setting the screening criteria? Do they suggest criteria that can be consider as social, ethical, or environmental criteria?

8- What is the regulatory body role on Islamic investment funds?

9- What type of screening criteria do SSBs focus on the most and why?

10- What level of influence do SSBs have on Islamic investment funds?

11- Do SSBs in your financial institution try to encourage you to set social criteria besides financial criteria for Islamic funds and if so why?

(C) Social justice

12. Does your financial institution have social objectives to increase social justice in KSA society? If so what are they and what does it do to accomplish these objectives?

13. As a fund manager, do you believe Islamic investment funds have a role in social justice? If so what is this role?

14. Do you believe that positive screening could work to increase social justice in KAS society?

15. What is important for Islamic investment fund investors: financial returns or helping social justice for society, and why?

16. Do investors' views affect your decisions in choosing your investee companies? If so how?

17. Do regulatory bodies have a role in pushing society toward social justice? Why and how will they do this?

18. Is social justice important? Why do you think this?

19. What is your understanding of social justice in Islam?

20. How does Islamic teaching enforce social justice? What are the most Islamic principles relating to social justice?

21. What is your understanding of Islamic terms: Khalifah (trusteeship) and Adl (justice)? Are these relevant to your job?

22. Has social justice changed over the last few decades in KSA? If so how?

23. Have capitalism and globalisation impacted on social justice in KSA? Is it a positive or negative impact?

24. Do globalisation and capitalism affect your choices of investments and what you do in your job?

25. Do globalisation and capitalism affect the actions of your investee companies, investors, regulatory bodies, and SSBs? If so how?

26. Has capitalism and globalisation affected KSA society and if so how?

مدراء الصناديق الاستثمارية

١. معلومات عامة

اسم المنشأة :...
عمر المشارك: ٢٠-٣٠ ☐، ٣٠-٤٠☐ ، ٤٠-٥٠ ☐، أكثر من ٥٠☐
سنوات الخبرة:.................
عدد سنوات الخبرة كمدير صندوق: ....
هل عملت في صندوق غير إسلامي من قبل:....................... كم هي المدة:.................
الدراسة / العمل بالخارج: .... في أي دولة:......................................
كم المدة التي تم قضائها للدراسة/العمل بالخارج.......................................

٢. ممارسات الصناديق الاستثمارية الإسلامية

١- كم هي عدد الصناديق الاستثمارية الإسلامية بمنشأتكم المالية؟ ماذا حفز منشأتكم المالية الابتداء في هذه الصناديق؟ كيف استجاب المستثمرون مع هذه الصناديق عند بدايتها؟ هل تعتقد أن صناديق الاستثمار الإسلامية تتزايد بشكل سريع في سوق المملكة؟

٢- عند إنشاء صندوق إسلامي جديد، ما هي الأهداف التي توضع عادة و من يضع هذه الأهداف؟

٣- ما نوعية الاختيار (screening) المستخدمة في صناديقك الإسلامية الاستثمارية؟ و هل هي مختلفة من صندوق إلى آخر؟

٤- ما هو الفرق بين نوعي الاختيار (screening) للصناديق الاستثمارية(الايجابي) و (السلبي)؟

٥- هل تستخدم طريقة الاختيار الايجابي وماذا يعوقك عن استخدامه؟

٦- إلى أي مدى يمكن للشركات المستثمر بها التعاون معك لو بدأت باستخدام طريقة الاختيار الايجابية لجميع استثماراتك؟ هل ستغير الشركات ممارساتها؟ كيف؟

٧- ما هو دور اللجنة الشرعية في وضع معايير الاختيار (screening criteria) للصناديق الإسلامية؟ هل يقترحون معايير يمكن أن تعتبر اجتماعية، أخلاقية، أو بيئية؟

٨- ما هو دور المشرعين في الصناديق الإسلامية؟ (الأنظمة، المراقبة، المساعدة، المساهمة)

٩- ما نوع معايير الاختيار (screening criteria) التي يركز عليها أعضاء اللجنة الشرعية أكثر من غيرها عادة؟ لماذا؟

١٠-ما هو مستوى التأثير الذي تملكه اللجنة الشرعية على الصناديق الإسلامية؟

١١-هل اللجنة الشرعية في مؤسستك المالية تحاول أن تحث المنشأة أو مدراء الصناديق لوضع معايير اجتماعية بجانب المعايير المالية للصناديق الإسلامية؟ لماذا؟

٣. العدالة الاجتماعية

١٢-هل منشأتك المالية لديها أهداف اجتماعية من شأنها زيادة العدالة الاجتماعية في المجتمع السعودي؟ ما هي هذه الأهداف؟ و ماذا تفعل منشأتكم لتحقيق هذه الأهداف؟

١٣-كمدير صندوق، هل لديك اعتقاد أن الصناديق الاستثمارية الإسلامية لها دور لإحلال العدالة الاجتماعية؟ ما هو هذا الدور؟

١٤- هل لديك الاعتقاد أن الاختيار الايجابي (positive screening) يمكن أن يعمل على زيادة العدالة الاجتماعية بمجتمع المملكة؟

١٥- ما هو المهم للمستثمرين في الصناديق الاستثمارية الإسلامية: العائدات المالية أو مساعدة العدالة الاجتماعية في المجتمع؟ و لماذا؟

١٦- هل وجهات نظر المستثمرين تؤثر في قراراتك لاختيار الشركات المستثمر بها؟ كيف؟

١٧- هل للمشرعين دور في دفع المجتمع باتجاه العدالة الاجتماعية؟ لماذا و كيف يمكنهم عمل هذا؟

١٨- هل العدالة الاجتماعية مهمة؟ لماذا؟

١٩- ما هو مفهومك عن العدالة الاجتماعية بالإسلام؟

٢٠- كيف تدفع التعاليم الإسلامية إلى العدالة الاجتماعية؟ ما هو أكثر المبادئ الإسلامية علاقة بالعدالة الاجتماعية؟

٢١- ما هو مفهومك للمصطلحات التالية: الخلافة والعدل؟ هل لهما علاقة بعملك؟

٢٢- هل العدالة الاجتماعية تغيرت في المملكة خلال العقود الأخيرة؟ كيف؟

٢٣- هل الرأسمالية و العولمة أثرت على العدالة الاجتماعية بالمملكة؟ هل هو تأثير ايجابي أو سلبي؟

٢٤- هل الرأسمالية و العولمة أثرت على اختيارك للاستثمارات و ما تفعله في مجال عملك؟

٢٥- هل الرأسمالية و العولمة أثرت على قرارات الشركات، المستثمرين، المشرعين، أعضاء اللجان الشرعية؟ كيف؟

٢٦- هل الرأسمالية و العولمة أثرت على المجتمع السعودي ككل؟ كيف؟

Appendix 6.2

Semi-Structured Interview Questions

2. Shariah supervisory board members

(A) Background information:

Participant age: ☐ 20-30, ☐ 30-40, ☐ 40-50, ☐ over 50
Number of years of experience: ....
Number of years as SSB member: …………………......
Member on how many SSB: ....
Work in conventional Bank before: .... If yes for how long: ....
Study/work abroad: …………… If yes in which country:……………………
For how long you study/work abroad:....................

(B) Islamic investment funds practices

1. What motivates financial institutions in starting Islamic investment funds? How do investors respond to these funds? Do you think Islamic investment funds are increasing rapidly in KSA market?

2. When establishing an Islamic fund, what objectives are usually set and who sets them?

3. What type of screening is used in Islamic investment funds? Do they differ by fund?

4. What is the difference between positive and negative screening?

5. What impedes funds from using positive screening?

6. To what extent would investee companies cooperate with Islamic investment funds if they started to use positive screening? Would investee companies change their practices? If yes, how?

7. What is your role in setting the screening criteria? Do you suggest criteria that can be consider as social, ethical, or environmental criteria?

8. What is the regulatory body role on Islamic investment funds?

9. What type of screening criteria do you focus on the most and why?

10. What level of influence do you have on Islamic investment funds?
11. Do you try to encourage funds to set social criteria besides financial criteria for Islamic funds and if so why?

(C) Social justice

12. Do funds have objectives to increase social justice in KSA society? If so what are they and what does it do to accomplish these objectives?

13. As a SSBs member, do you believe Islamic investment funds have a role in social justice? If so what is this role?

14. Do you believe that positive screening could work to increase social justice in KAS society?

15. What is important for Islamic investment fund investors: financial returns or helping social justice for society, and why?

16. Do investors' views affect fund manager decisions in choosing investee companies? If so how?

17. Do regulatory bodies have a role in pushing society toward social justice? Why and how will they do this?

18. Is social justice important? Why do you think this?

19. What is your understanding of social justice in Islam?

20. How does Islamic teaching enforce social justice? What are the most Islamic principles relating to social justice?

21. What is your understanding of Islamic terms: Khalifah (trusteeship) and Adl (justice)? Are these relevant to your job?

22. Has social justice changed over the last few decades in KSA? If so how?

23. Have capitalism and globalisation impacted on social justice in KSA? Is it a positive or negative impact?

24. Do globalisation and capitalism affect fund managers choices of investments and what they do in their job?

25. Do globalisation and capitalism affect the actions of Islamic funds investee companies, investors, regulatory bodies, and fund manager? If so how?

26. Has capitalism and globalisation affected KSA society and if so how?

أعضاء اللجان الشرعية

(١) معلومات عامة

عمر المشارك: ٢٠-٣٠ ☐، ٣٠-٤٠ ☐، ٤٠-٥٠ ☐، أكثر من ٥٠ ☐
عدد سنوات الخبرة:....................
عدد السنوات كعضو لجنة شرعية: ....
عضو في أكثر من لجنة شرعية:......................... كم هو العدد:.............................
هل عملت في صندوق/بنك غير إسلامي من قبل:....................... كم هي المدة:.................
الدراسة / العمل بالخارج: .... في أي دولة:...............................
كم المدة التي تم قضائها للدراسة/العمل بالخارج.......................................

(٢) ممارسات الصناديق الاستثمارية الإسلامية

١- ماذا حفز المنشات المالية الابتداء في الصناديق الإسلامية؟ كيف استجاب المستثمرون مع هذه الصناديق الجديدة عند بدايتها؟ هل تعتقد أن صناديق الاستثمار الإسلامية تتزايد بشكل سريع في سوق المملكة؟

٢- عند إنشاء صندوق إسلامي جديد، ما هي الأهداف التي توضع عادة و من يضع هذه الأهداف؟

٣- ما نوعية الاختيار (screening) المستخدمة في صناديق الاستثمار الإسلامية؟ و هل هي مختلفة من صندوق إلى آخر؟

٤- ما هو الفرق بين نوعي الاختيار (screening) للصناديق الاستثمارية(الايجابي أو positive screening) و (السلبي أو negative screening)؟

٥- إلى أي مدى يمكن للشركات المستثمر بها التعاون مع الصناديق الاسلامية لو بدأت باستخدام طريقة الاختيار الايجابية؟ هل ستغير الشركات ممارساتها؟ كيف؟

٦- ما هو دورك في وضع معايير الاختيار (screening criteria) للصناديق الإسلامية؟ هل تقترح معايير يمكن أن تعتبر اجتماعية، أخلاقية، أو بيئية؟

٧- ما هو دور المشرعين في الصناديق الإسلامية؟ (الأنظمة، المراقبة، المساعدة، المساهمة)

٨- ما نوع معايير الاختيار (screening criteria) التي تركز عليها أكثر من غيرها عادة؟ لماذا؟

٩- ما هو مستوى التأثير الذي تملكه اللجنة الشرعية على الصناديق الإسلامية؟

١٠- هل قمت بحث المنشأة أو مدراء الصناديق لوضع معايير اجتماعية بجانب المعايير المالية للصناديق الإسلامية من قبل؟ لماذا؟

(٣) العدالة الاجتماعية

١٢- هل الصناديق الإسلامية لديها أهداف من شأنها زيادة العدالة الاجتماعية في بمجتمع المملكة؟ ما هي هذه الأهداف؟ و ماذا تفعل المنشات المالية لتحقيق هذه الأهداف؟

١٣-كعضو لجنة شرعية، هل لديك اعتقاد أن الصناديق الاستثمارية الإسلامية لها دور لإحلال العدالة الاجتماعية؟ ما هو هذا الدور؟

١٤-هل لديك الاعتقاد أن الاختيار الايجابي (positive screening) يمكن أن يعمل على زيادة العدالة الاجتماعية بمجتمع المملكة؟

١٥-ما هو المهم للمستثمرين في الصناديق الاستثمارية الإسلامية: العائدات المالية أو مساعدة العدالة الاجتماعية في المجتمع؟ و لماذا؟

١٦-هل وجهات نظر المستثمرين تؤثر في قرارات مدراء الصناديق لاختيار الشركات المستثمر بها؟ كيف؟

١٧-هل للمشرعين دور في دفع المجتمع باتجاه العدالة الاجتماعية؟ لماذا و كيف يمكنهم عمل هذا؟

١٨-هل العدالة الاجتماعية مهمة؟ لماذا؟

١٩-ما هو مفهومك عن العدالة الاجتماعية بالإسلام؟

٢٠-كيف تدفع التعاليم الإسلامية إلى العدالة الاجتماعية؟ ما هو أكثر المبادئ الإسلامية علاقة بالعدالة الاجتماعية؟

٢١-ما هو مفهومك للمصطلحات التالية: الخلافة والعدل؟ هل لهما علاقة بعملك؟

٢٢-هل العدالة الاجتماعية تغيرت في المملكة خلال العقود الأخيرة؟ كيف؟

٢٣-هل الرأسمالية و العولمة أثرت على العدالة الاجتماعية بالمملكة؟ هل هو تأثير ايجابي أو سلبي؟

٢٤-هل الرأسمالية و العولمة أثرت على مدراء الصناديق في اختيارهم للاستثمارات و ما يفعلونه في مجال عملهم؟

٢٥-هل الرأسمالية و العولمة أثرت على قرارات الشركات، المستثمرين، المشرعين، مدراء الصناديق؟ كيف؟

٢٦-هل الرأسمالية و العولمة أثرت على المجتمع السعودي ككل؟ كيف؟

Appendix 6.3

Semi-Structured Interview Questions

3. Regulatory bodies'

(A) Background information:

Participant position: …………………….................................

Participant age: ☐ 20-30, ☐ 30-40, ☐ 40-50, ☐ over 50
Number of years of experience: ....
Study/work abroad: …………… If yes in which country:……………………
For how long you study/work abroad:....................

(B) Islamic investment funds practices

1. What motivates financial institutions in starting Islamic investment funds? How do investors respond to these funds? Do you think Islamic investment funds are increasing rapidly in KSA market?

2. When establishing an Islamic fund, what objectives are usually set and who sets them?

3. What type of screening is used in Islamic investment funds? Do they differ by fund?

4. What is the difference between positive and negative screening?

5. Do Islamic investment funds use positive screening and what impedes them from using positive screening?

6. To what extent would investee companies cooperate with Islamic investment funds if they started to use positive screening for all their investments? Would investee companies change their practices? If yes, how?

7. Does the regulatory body have regulations that facilitate the use of positive screening in funds? If yes, what are these regulations? If no, why?

8. Does the regulatory body have regulations for SSBs members or for funds? If yes, what are these regulations? If no, why?

9. Is there monitoring by you over SSBs and Islamic investment funds and why?

10. What level of influence do SSBs have on Islamic investment funds and the regulatory body?

11. Do SSBs or Islamic fund managers try to contact you to encourage you to set a regulations to help them start social criteria for Islamic funds and if so why?

(C) Social justice

12. Do you believe that Islamic financial institutions should have social objectives that can increase social justice in KSA society and why? If so what are they and what does it do to accomplish these objectives?

13. What can regulators do to help Islamic investment funds accomplish these objectives?

14. Do you believe that positive screening could work to increase social justice in KAS society?

15. Do you believe Islamic investment funds have a role in social justice? If so what is this role?

16. What is important for Islamic investment fund investors and fund managers: financial returns or helping social justice for society, and why?

17. Do investors' views affect Islamic investment funds manager decision in choosing investee companies? If so how?

18. Do regulatory bodies have a role in pushing society toward social justice? Why and how you will do this?

19. Is social justice important? Why do you think this?

20. What is your understanding of social justice in Islam?

21. How does Islamic teaching enforce social justice? What are the most Islamic principles relating to social justice?

22. What is your understanding of Islamic terms: Khalifah (trusteeship) and Adl (justice)? Are these relevant to your job?

23. Has social justice changed over the last few decades in KSA? If so how?

24. Have capitalism and globalisation impacted on social justice in KSA? Is it a positive or negative impact?

25. Do globalisation and capitalism affect fund managers choices of investments and what they do in their job?

26. Do globalisation and capitalism affect the actions of Islamic funds investee companies, investors, regulatory bodies, and fund manager? If so how?

27. Has capitalism and globalisation affected KSA society and if so how?

المشرعين

(١) معلومات عامة

المركز الوظيفي :..
عمر المشارك: ٢٠-٣٠ ☐، ٣٠-٤٠ ☐، ٤٠-٥٠ ☐ ، أكثر من ٥٠ ☐
عدد سنوات الخبرة:...................
الدراسة / العمل بالخارج: .... في أي دولة:...
كم المدة التي تم قضائها للدراسة/العمل بالخارج.......................................

(٢) ممارسات الصناديق الاستثمارية الإسلامية

١- ماذا حفز المنشات المالية الابتداء في الصناديق الاسلامية؟ كيف استجاب المستثمرون مع هذه الصناديق عند بدايتها؟ هل تعتقد أن صناديق الاستثمار الإسلامية تتزايد بشكل سريع في سوق المملكة؟

٢- عند إنشاء صندوق إسلامي جديد، ما هي الأهداف التي توضع عادة و من يضع هذه الأهداف؟

٣- ما نوعية الاختيار (screening) المستخدمة في الصناديق الاستثمارية الإسلامية؟ و هل هي مختلفة من صندوق إلى آخر؟

٤- ما هو الفرق بين نوعي الاختيار (screening) للصناديق الاستثمارية(الايجابي) و (السلبي)؟

٥- هل تستخدم الصناديق الإسلامية طريقة الاختيار الايجابي وماذا يعوقها عن استخدامه؟

٦- إلى أي مدى يمكن للشركات المستثمر بها التعاون مع الصناديق الاسلامية لو بدأت باستخدام طريقة الاختيار الايجابية؟ هل ستغير الشركات ممارساتها؟ كيف؟

٧- هل المشرعين (مثل هيئة السوق المالية) لديهم تشريعات تسهل استخدام المراقية الايجابية (positive screening) للصناديق؟ نعم ما هي هذه التشريعات؟ لا لماذا؟

٨- هل المشرعين لديهم أنظمة لتنظيم عمل أعضاء اللجان الشرعية و الصناديق؟ نعم ما هي هذه الانظمة؟ لا لماذا؟

٩- هل هناك مراقبة من قبلكم على أعضاء اللجان الشرعية و الصناديق الإسلامية و لماذا؟

١٠-ما هو مستوى التأثير الذي تملكه اللجان الشرعية على الصناديق الإسلامية و على الجهات التشريعية؟

١١-هل سبق أن أحد أعضاء اللجنة الشرعية في أي منشأة مالية أو مدراء الصناديق حاول أن يتحدث معكم كجهة تشريعية لمساعدتهم لبدأ معايير اجتماعية للصناديق الإسلامية؟ لماذا؟

(٣) العدالة الاجتماعية

١٢-هل تعتقد أن المنشات المالية الاسلامية (أو التي لها نوافذ اسلامية) يجدر بها و ضع أهداف اجتماعية من شأنها زيادة العدالة الاجتماعية في المملكة و لماذا؟ ما هي هذه الأهداف؟ و ماذا تفعل لتحقيق هذه الأهداف؟

١٣-ماذا يستطيع المشرعين فعله لمساعدة الصناديق الإسلامية تحقيق هذه الأهداف؟

١٤- هل لديك الاعتقاد أن الاختيار الايجابي (positive screening) يمكن أن يعمل على زيادة العدالة الاجتماعية بمجتمع المملكة؟

١٥- هل تعتقد أن الصناديق الاستثمارية الاسلامية لديها دور لتحقيق العدالة الاجتماعية؟ ما هو هذا الدور؟

١٦-ما هو المهم للمستثمرين في الصناديق الاستثمارية الإسلامية: العائدات المالية أو مساعدة العدالة الاجتماعية في المجتمع؟ و لماذا؟

١٧- هل وجهات نظر المستثمرين تؤثر في قرارات مدراء الصناديق لاختيار الشركات المستثمر بها؟ كيف؟

١٨- هل للمشرعين دور في دفع المجتمع باتجاه العدالة الاجتماعية؟ لماذا و كيف تفعلون هذا؟

١٩- هل العدالة الاجتماعية مهمة؟ لماذا؟

٢٠-ما هو مفهومك عن العدالة الاجتماعية بالإسلام؟

٢١-كيف تدفع التعاليم الإسلامية إلى العدالة الاجتماعية؟ ما هو أكثر المبادئ الإسلامية علاقة بالعدالة الاجتماعية؟

٢٢-ما هو مفهومك للمصطلحات التالية: الخلافة والعدل؟ هل لهما علاقة بعملك؟

٢٣- هل العدالة الاجتماعية تغيرت في المملكة خلال العقود الأخيرة؟ كيف؟

٢٤- هل الرأسمالية و العولمة أثرت على العدالة الاجتماعية بالمملكة؟ هل هو تأثير ايجابي أو سلبي؟

٢٥- هل الرأسمالية و العولمة أثرت على اختيارك للاستثمارات و ما تفعله في مجال عملك؟

٢٦- هل الرأسمالية و العولمة أثرت على قرارات الشركات، المستثمرين، المشرعين، أعضاء اللجان الشرعية، مدراء الصناديق؟ كيف؟

٢٧- هل الرأسمالية و العولمة أثرت على المجتمع السعودي ككل؟ كيف؟

Appendix 6.4

Semi-Structured Interview Questions

4. Investors

(A) Background information:

Participant Name: ……………………….............................

Participant age: ☐ 20-30, ☐ 30-40, ☐ 40-50, ☐ over 50
Number of Years as investor in Islamic funds: ……………………………
Invest in conventional fund before/now: .... If yes for how long: ....
Study/work abroad: …………… If yes in which country:……………………
For how long you study/work abroad:.....................

(B) Islamic investment funds practices

1. How many Islamic investment funds do you currently invest in? What motivates you to invest in Islamic funds? How did you respond to these funds when they first began and now? Do you think Islamic investment funds are increasing rapidly in KSA market?

2. Do you know what your Islamic investment funds objectives are and who sets these objectives? If no, why? If yes, what are important objectives to you?

3. What type of screening is used in Islamic investment funds? Do they differ by fund?

4. What is the difference between positive and negative screening?

5. Do the Islamic investment funds you invest in use positive screening and what impedes them from using positive screening?

6. To what extent would investee companies cooperate with Islamic investment funds if they started to use positive screening for all their investments? Would investee companies change their practices? If yes, how?

7. Do you know what the Sharia Supervisory board members (SSBs) role is in setting the screening criteria? Do they suppose to have a role and suggest criteria that can be consider as social, ethical, or environmental criteria?

8. What type of screening criteria do SSBs focus on the most and why?
9. What level of influence do SSBs have on Islamic investment funds?
10. Do you believe that SSBs should encourage Islamic investment funds to set social criteria besides financial criteria and if so why?
11. What is the regulatory body role on Islamic investment funds?

(C) Social justice

12. Do you believe that Islamic financial institution should have a social objectives to increase social justice in KSA society and why?

13. Do your Islamic funds investments have social objectives? If so what are they and what does it do to accomplish these objectives?

14. As an investor, do you believe that Islamic investment funds have a role in social justice? If so what is this role?

15. Do you believe that positive screening could work to increase social justice in KSA society?

16. What is important for you: financial returns or helping social justice for society, and why? What about fund managers?

17. Do your views affect fund manager decision of choosing investee companies? If so how?

18. Do regulatory bodies have a role in pushing society toward social justice? Why and how will they do this?

19. Is social justice important? Why do you think this?

20. What is your understanding of social justice in Islam?

21. How does Islamic teaching enforce social justice? What are the most Islamic principles relating to social justice?

22. What is your understanding of Islamic terms: Khalifah (trusteeship) and Adl (justice)? Are these relevant to your job?

23. Has social justice changed over the last few decades in KSA? If so how?

24. Have capitalism and globalisation impacted on social justice in KSA? Is it a positive or negative impact?

25. Do globalisation and capitalism affect your choices of investment?

26. Do globalisation and capitalism affect the actions / views of investee companies, regulatory bodies, fund managers and SSBs? If so how?

27. Has capitalism and globalisation affected KSA society and if so how?

المستثمرين

(١) معلومات عامة

الاسم:..
عمر المشارك: ٢٠-٣٠ ☐، ٣٠-٤٠ ☐، ٤٠-٥٠ ☐، أكثر من ٥٠ ☐
عدد السنوات كمستثمر في الصناديق الاسلامية: ....
هل استثمرت في صندوق/بنك غير إسلامي من قبل:...................... كم هي المدة:................
الدراسة / العمل بالخارج: .... في أي دولة:...............................
كم المدة التي تم قضائها للدراسة/العمل بالخارج......................................

(٢) ممارسات الصناديق الاستثمارية الإسلامية

١- كم هو عدد الصناديق الإسلامية التي تستثمر بها حاليا؟ ماذا حفزك على الاستثمار في الصناديق الإسلامية؟ كيف كان تجاوبك مع هذه الصناديق الجديدة عند بدايتها و الآن؟ هل تعتقد أن صناديق الاستثمار الإسلامية تتزايد بشكل سريع في سوق المملكة؟

٢- هل تعلم ما هي أهداف الصندوق/الصناديق الإسلامية الذي تستثمر بها حاليا و من يضع هذه الأهداف؟ لا لماذا؟ نعم ما هو أهم هدف بالنسبة لك؟

٣- ما نوعية الاختيار (screening) المستخدمة في صناديق الاستثمار الإسلامية؟ و هل هي مختلفة من صندوق إلى آخر؟

٤- ما هو الفرق بين نوعي الاختيار (screening) للصناديق الاستثمارية(الايجابي) و (السلبي)؟

٥- هل الصناديق التي تستثمر بها يستعملون الاختيار الايجابي ماذا يعوق الصناديق عن استخدام الاختيار الايجابي(positive screening)؟

٦- إلى أي مدى يمكن للشركات المستثمر بها التعاون مع الصناديق الاسلامية لو بدأت باستخدام طريقة الاختيار الايجابية؟ هل ستغير الشركات ممارساتها؟ كيف؟

٧- هل تعلم ما هو دور اللجان الشرعية في و ضع معايير الاختيار (screening criteria) للصناديق الإسلامية؟ هل من المفترض أن يكون لهم دور و يقترحون معايير يمكن أن تعتبر اجتماعية، أخلاقية، أو بيئية؟

٨- ما نوع معايير الاختيار (screening criteria) التي يركز عليها أعضاء اللجان الشرعية أكثر من غيرها عادة؟ لماذا؟

٩- ما هو مستوى التأثير الذي تملكه اللجنة الشرعية على الصناديق الإسلامية؟

١٠- هل تعتقد أنه من المفترض أن يقوم أعضاء اللجان الشرعية بحث المنشأة أو مدراء الصناديق لوضع معايير اجتماعية بجانب المعايير المالية للصناديق الإسلامية؟ لماذا؟

١١-ما هو دور المشرعين في الصناديق الإسلامية؟ (الأنظمة، المراقبة، المساعدة، المساهمة)

(٣) العدالة الاجتماعية

١٢- هل تعتقد أن المنشات المالية الاسلامية من المفترض أن يكون لديها أهداف اجتماعية لزيادة العدالة الاجتماعية و لماذا؟

١٣- هل الصندوق الإسلامي الذي تستثمر به حاليا لديه أهداف اجتماعية؟ (نعم) ما هي هذه الأهداف و ماذا يفعلون لتحقيق هذه الأهداف؟

١٤-كمستثمر، هل لديك اعتقاد أن الصناديق الاستثمارية الإسلامية لها دور لإحلال العدالة الاجتماعية؟ ما هو هذا الدور؟

١٥- هل لديك الاعتقاد أن الاختيار الايجابي (positive screening) يمكن أن يعمل على زيادة العدالة الاجتماعية بمجتمع المملكة؟

١٦-ما هو المهم لك كمستثمر في الصناديق الاستثمارية الإسلامية: العائدات المالية أو مساعدة العدالة الاجتماعية في المجتمع؟ و لماذا؟ ماذا عن مدراء الصناديق؟

١٧- هل وجهات نظرك تؤثر في قرارات مدراء الصناديق لاختيار الشركات المستثمر بها؟ كيف؟

١٨- هل للمشرعين دور في دفع المجتمع باتجاه العدالة الاجتماعية؟ لماذا و كيف يمكنهم عمل هذا؟

١٩- هل العدالة الاجتماعية مهمة؟ لماذا؟

٢٠-ما هو مفهومك عن العدالة الاجتماعية بالإسلام؟

٢١-كيف تدفع التعاليم الإسلامية إلى العدالة الاجتماعية؟ ما هو أكثر المبادئ الإسلامية علاقة بالعدالة الاجتماعية؟

٢٢-ما هو مفهومك للمصطلحات التالية: الخلافة والعدل؟ هل لهما علاقة بعملك؟

٢٣- هل العدالة الاجتماعية تغيرت في المملكة خلال العقود الأخيرة؟ كيف؟

٢٤- هل الرأسمالية و العولمة أثرت على العدالة الاجتماعية بالمملكة؟ هل هو تأثير ايجابي أو سلبي؟

٢٥- هل الرأسمالية و العولمة أثرت على مدراء الصناديق في اختيارهم للاستثمارات و ما يفعلونه في مجال عملهم؟

٢٦- هل الرأسمالية و العولمة أثرت على قرارات الشركات، المستثمرين، المشرعين، مدراء الصناديق، أعضاء اللجان الشرعية؟ كيف؟

٢٧- هل الرأسمالية و العولمة أثرت على المجتمع السعودي ككل؟ كيف؟

Appendix 7.1

Content Analysis Template/Record Sheet

Fund manager Name: Type of FM: No. of Islamic funds:

Type of document : Total number of pages: No. of Equity funds:

Targeted market : No:

Categories		Description/ Negative sentences	Pages	No
Fund (only heading and subheading)				
1	Name of the Investment Fund and address			
2	Commencement			
3	Participation amounts/Minimum Investment			
4	Currency of the fund (write the currency name)			
5	Investment fund objectives			
6	Principal investment strategies			
7	Fees and expenses			
8	Fund board			
9	Summary of Financial Disclosure (presented in table and provide general information about the fund)			
10	Dividends and Distributions			
11	Sharia Investment Risk / Sharia compliance risk (This is the risk of limiting the investment			

	to only Shariah compliant companies)			
12	Equity Markets Risks / Stock Market Volatility			
13	Islamic Investment Principles			
Social justice in Islamic economics and Islamic funds				
14	Accountability			
15	Zakat			
16	Purification / purified			
17	Gharar			
18	Maysir			
19	Poverty alleviation			
20	Poverty			
21	Social projects/social objective			
22	Social			
23	No Riba (usury/ interest (if it refer to Riba)/non-interest based)			
24	Purification process (if written between instructions, mention that in the empty space)			
25	Use of Islamic resources (Quran or Hadith)			
26	other (any something refer to social justice not mentioned above)			
Ethics (look for exact word)		**This category mainly includes the words related to any following ethical principles or codes.**		
27	Ethics			

Profit (look for exact word)		**This category mainly includes the words related to financial returns.**		
28	Return (Just if it refers financial returns)			
29	Performance			
30	Profit / profitability			
31	Investment risk			
Positive and SRI screening criteria		**This category mainly includes the words related to screening criteria as if it is includes criteria related to positive screening such as employee policies, environmental protection, human rights or other practices.**		
1- Environment (All words must be related to screening)		**These criteria refer to invest in companies that tries to have care of:**		
32	Environment			
33	Climate			
34	Clean Technology			
35	Pollution			
36	Clean energy			
37	Minimize environmental impact			
38	Disclose environmental policies and practices to shareholders, employees and community.			
39	Address their environmental performance			
2- Social(All words must be related to screening)				
40	Community relations/Development			
41	Sustainable living (health care)			

42	Human rights			
43	Employer-employee relations / Labour relation. (For example, compensate their employee fairly, good management relations, provide programmes for employee)			
	4-Other			
44	Direct engagement with companies			
	Negative screening (All words must be related to screening)	**This category mainly includes the words related to screening criteria related to negative and financial screening in Islamic funds.**		
	1-Industrial criteria			
45	Tobacco			
46	Alcohol			
47	Gambling			
48	Weapons/Arms			
49	Nuclear energy, nuclear weapons.			
50	Conventional financial banks / commercial banks / non Shariah compliant Financial services			
51	Use of non Islamic financial instruments such as Futures contracts, options contracts, SWAPs and preferred stocks.			
52	Traditional insurance companies			
53	Animal testing/Embryonic or Stem Cell research and cloning			
54	Production and distribution of meat not slaughtered according to Shariah rules			

55	Pork and its derivatives				
56	Production and distribution of pornographic films				
57	Books and magazines/Advertising				
58	Satellite channels and cinemas/Media/theatres and cinema industry				
59	Restaurants provide prohibited services				
60	Hotels and places of entertainment that provide prohibited services/ Management of casinos/Leisure				
61	Other (any criteria not mentioned above)				
2-Financial criteria					
A- AAOIFI financial criteria		**No. Months**	**Percentage**		
62	Interest bearing Investments and cash / market capitalisation < 30%				
63	Interest bearing debt / market capitalisation < 30%				
64	Interest revenue and other un-Halal revenues / total revenues of < 5%				
2- S & P financial criteria					
65	Total Debt / Market Value of Equity (36 month average) < 33%				
66	Accounts Receivables / Market value of Equity (36 month average) < 49 %				

67	(Cash + Interest Bearing Securities or (time deposits)) / Market value of Equity (36 month average) <33%			
68	(Non-Permissible Income other than Interest Income) / Revenue < 5%			
69	Other financial criteria			
	DJ Islamic market index			
70	Total debt / average market capitalisation<33%			
71	cash and interest-bearing securities / market capitalisation < 33%			
72	Accounts receivables / market capitalisation < 33%			
73	Other financial criteria			
	FTSE Shariah index			
74	Debt < 33% of total assets			
75	Cash and Interest bearing items < 33% of total assets			
76	Accounts receivable and cash < 50% of total assets			
77	Total interest and non compliant activities income < 5% of total revenue			
78	Other financial criteria			

MSCI global Islamic index				
79	Total debt / total assets < 33.33%			
80	cash and interest-bearing securities / total assets < 33.33%			
81	accounts receivables and cash / total assets < 33.33%			
82	Other financial criteria			
83	Other index (index name if available and other new financial criteria)			
Regulatory body and regulations (look for exact word)		**This category mainly includes the words related to KSA regulatory bodies such as SAMA or CMA and if financial institutions followed fund regulations such as CMA regulations or AAOIFI standards.**		
84	SAMA			
85	CMA/ CMA regulations			
86	Follow AAOIFI regulations			
Sharia law (look for exact word or synonyms)				
87	Sharia law/Sharia guidelines/ Sharia criteria / Sharia rules/Shariah Principles / Shariah Industry (Look for all words)			

Globalisation (look for exact word)		**This category mainly includes the words related to globalisation**		
88	Globalisation			
89	Capitalism			
90	West/US/UK/other (exclude fund name)			
SSBs		**This category mainly includes the words related to SSBs name, role, statements and other.**		
91	Sharia committee/Sharia group/Sharia board (exact word/ look for all words)			
92	SSBs names			
93	SSBs role			
94	SSBs statements			
95	SSBs experience			
96	SSBs ages			
97	SSBs financial rewards			
98	SSBs working process			
99	SSBs meeting information			
100	Other			

Appendix 7.2

Content Analysis Decision Rules

1- Exclude table of content.

2- For “Fund” category: apply the content analysis only if “section name” is available.

3- For “Social justice in Islamic economics and Islamic funds” category: apply the content analysis for exact word; take in consideration spelling for some words.

4- Financial criteria: any different criteria should be added on “other”.

5- Industrial criteria: any different criteria should be added on “other”.

6- Social justice criteria: apply the content analysis for the exact words.

7- Sharia index: write the name of the index.

8- Regulatory bodies: apply the content analysis for the exact words “SAMA, CMA and AAOIFI”.

9- For “Profit” category: apply the content analysis for exact words.

10- Principal risks of investing in the “investment fund’’ category, looking for sections.

11- Should take in consideration spelling for words such as Sharia, Quard Hassan and Sadqa.

12- Any additional information regarding categories can be added in the empty spaces.

Appendix 7.3

AAOIFI Financial Screening Criteria
Interest-Bearing Investments and Cash / Market Capitalisation < 30%
Interest-Bearing Debt / Market Capitalisation < 30%
Interest Revenue and other un-Halal Revenues / Total Revenues of < 5%

Source: Shariah Standard No. (21) (AAOIFI, 2006)

Appendix 7.4

S&P Financial Screening Criteria
Total Debt / Market Value of Equity < 33%
Accounts Receivables / Market Value of Equity < 49 %
(Cash + Interest Bearing Securities or (Time Deposits)) / Market Value of Equity <33%
(Non-Permissible Income other than Interest Income) / Revenue < 5%

Source: Dharani and Natarajan(2011)

Appendix 7.5

DJ Financial Screening Criteria
Total Debt / Average Market Capitalisation<33%
Cash and Interest-Bearing Securities / Market Capitalisation < 33%
Accounts Receivables / Market Capitalisation < 33%

Source: Khatkhatay and Nisar (2007).

Appendix 7.6

FTSE Financial Screening Criteria
Debt < 33% of Total Assets
Cash and Interest-Bearing Items < 33% of Total Assets
Accounts Receivable and Cash < 45% of Total Assets
Total Interest and Non Compliant Activities Income < 5% of Total Revenue

Source: Hussain (2004)

Appendix 7.7

MSCI Financial Screening Criteria
Total Debt / Total Assets < 33.33%
Cash and Interest-Bearing Securities / Total Assets < 33.33%
Accounts Receivables and Cash / Total Assets < 33.33%

Source: MSCI Islamic Index Series Methodology (2011).

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